S. Hrg. 100-17

# REAUTHORIZATION OF HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

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## HEARINGS

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

TO

EXTEND AUTHORIZATION FOR MOST HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS FOR 2 FISCAL YEARS TO GIVE THESE PROGRAMS NEEDED STABILITY; TO PROVIDE PERMANENT AUTHORIZATION FOR FHA; TO PROHIBIT ANY SO-CALLED USER FEES OR TAXES; TO REFORM THE UDAG PROJECT SELECTION PROCESS; AND TO PROVIDE MORE EFFECTIVE EMERGENCY ASSISTANCE WITH FOOD, SHELTER, AND HEALTH CARE TO HOMELESS AMERICANS

FEBRUARY 17 AND 19, 1987

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE
70-521 WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Goverment Printing Office, Washington, DC 20402

S241-8

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# REAUTHORIZATION OF HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

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TUESDAY, FEBRUARY 17, 1987

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing and Urban Affairs,
*Washington, DC.*

The subcommittee met at 10:00 a.m., in room SD-538, Dirksen Senate Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Dodd, Dixon, Sasser, Proxmire, Graham, Hecht, and Heinz.

## OPENING STATEMENT OF SENATOR CRANSTON

Senator Cranston. The hearing will please come to order.

I want to welcome all who are present, the witnesses, observers, press, others, Senator Proxmire, the chairman of the full committee.

With today's hearing the Senate Banking Committee begins work on the Housing and Community Development Act of 1987. One additional hearing has been scheduled for Thursday, February 19.

The committee will mark up the bill on March 11 and I expect to bring the bill to the Senate floor for action soon thereafter. I believe it is very important for the Senate to act promply on a housing bill this year. None has been enacted for 3 years.

Broad bipartisan agreement in both Houses of the Congress has developed on a number of key matters on which action is long overdue. It's time for Congress to work its will.

I look to this year's housing bill as an important housekeeping measure that will make needed improvements in current programs and provide vital stability to housing and community development. The bill should extend authority for most housing and community development programs for 2 fiscal years to give these programs needed stability.

The bill should provide permanent authorization for FHA to prevent any reoccurrence of the outrageous disruptions in mortgage insurance that we saw this past year when FHA shut down six times for a total of 51 days.

The bill should prohibit any so-called user fees or taxes on the activities of FHA, Fannie Mae, Freddie Mac, or Ginnie Mae, which would drive up mortgage costs for home buyers.

The bill should reform the Urban Development Action Grant Program [UDAG] project selection process to give every eligible city a fair opportunity to get outstanding projects approved.

The bill should include a number of other important provisions on which a broad consensus has been reached. The bill reported favorably by the Banking Committee last year provides a sound bipartisan blueprint for action.

Fast action must also be taken on separate legislation to provide assistance to homeless Americans. Much progress has been made in recent weeks. I am pleased to report that Senate Democratic leaders have a sound legislative package that will soon be refined on a bipartisan basis for early consideration by the Senate. I expect a bill that will provide more effective emergency assistance with food, shelter, and health care and that will also help homeless people move out of crisis and into more stable and productive lives.

More adequate provision must be made for homeless families, particularly families with children. Important elements of the Senate bill to aid homeless Americans will be referred to this committee and I pledge to do everything within my power to get good legislation quickly enacted into law.

The committee is already laying the groundwork for action beyond this year's authorization bill. My objective is to build a broad and powerful consensus for legislation that will establish a framework for Federal housing and development policy in the post-Reagan period.

This country cannot go on without a national housing policy as we've tried to do for the past 6 years. Affordable housing must be moved back up to its rightful place on the national agenda.

I think we have been given an exciting, even historic, challenge. We cannot return to the costly and confusing programs of the past. Neither can we abdicate Federal responsibility as the administration has proposed. We have to reformulate the Federal Government's role in housing and development in a way that is suited to the next decade. That will be a major task. It must be carried out on a bipartisan basis. It must involve the many individuals and organizations that care deeply about affordable housing in this country. It is a task that we must begin now.

I am encouraged by the enthusiasm for the task that is growing among many different groups. So let us begin.

I want to mention that Senator D'Amato of New York wanted very much to be here today but has been prevented from doing so. We are very fortunate to have him as the ranking minority member of the Housing and Urban Affairs Subcommittee. He will play a strong role in shaping Federal policy in these important areas as he has so ably done in the past. I look forward to working with him closely.

I am grateful that an outstanding group of witnesses has agreed to join us today and offer their views on provisions that should be included in the Housing and Community Development Act of 1987 and to give their assessment of the President's fiscal year 1988 budget proposals for housing.

Let me say that I'm really excited about the prospect we have for, first, tidying up some programs that need tidying up, and then dealing with the homeless situation to the best of our ability, and then moving on to creative and broadranged plans for the future which we have needed for a long, long time. That's a full agenda for this subcommittee. We count on the help of many of you in this room and many others not in this room in fulfilling that agenda in a meaningful way for all the people of our country.

It is now my pleasure to call on the chairman of the full committee, Senator Proxmire, for any remarks he might choose to make.

## OPENING STATEMENT OF SENATOR PROXMIRE

Senator **Proxmire**. Thank you very much, Mr. Chairman.

To the best of my knowledge, this is the first hearing by the Housing Subcommittee and I think we are very fortunate to have Alan Cranston as chairman of this subcommittee. We couldn't have a better Chairman. He is thoroughly familiar with housing. He's been a leader in housing legislation over the past few years and, of course, this comes at a time when, as the chairman has so well said, we have an urgent need for housing.

Unfortunately, it also comes at a time when that clashes with our need to hold down spending and we have to do that. We have the Gramm-Rudman-Hollings action, for better or worse. We have it. It's on the books. We're going to have to cut everything we possibly can. Housing is very expensive, as we know, and it's going to be a real struggle to try to come through with legislation that does the kind of job that the chairman has so ably expressed and does it within the terrific restrictions we have on spending.

We are up against that and that's not going to be easy. It's going to be very hard.

I'm delighted that we're starting this morning with the caliber of witnesses we have. I think that it is a very, very good group of witnesses. I just want to pay a special tribute to Lee Kendall. He is not only an expert but he has the great advantage of coming from the State of Wisconsin. Therefore, whatever he says I think should be weighed with consideration. He's a fine man with an excellent background and I'm so happy he's a witness here this morning.

Mr. Chairman, good luck. You have a big job ahead of you and we'll do our best in the full committee to be helpful. As you know, we have a very, very serious budget problem.

Senator **Cranston**. Yes. Thank you, Bill, very, very much. I appreciate those generous remarks.

Senator Dodd.

## OPENING STATEMENT OF SENATOR DODD

Senator **Dodd**. Thank you, Alan. Let me echo our full committee chairman's comments. I think we're lucky to have you chairing this subcommittee and to get right to work on these issues.

I have a statement, Mr. Chairman, I would ask unanimous consent that it's made a part of the record, but let me just comment.

It is a tough budgetary time. I think we all know that. It's self-evident. But I would hope that in the process of looking at these budgets that what we would try to start doing is maybe inject a little balance into all of this.

In the last 7 years we've cut the HUD budget by two-thirds. That's not conscientious efforts to reduce spending; that's just a wholesale slaughter of housing in this country. I don't know how else you could describe it. It's an assault on what has been a bipartisan commitment for 50 years in this country, going back to Democratic and Republican administrations. In fact, some of the most creative and thoughtful housing programs in this country came out of Republican, not Democratic administrations. So this was not liberal versus conservative, Republican versus Democrat. It was really a commitment that went back almost 50 years ago to a national Federal housing policy.

Unfortunately, for 7 years, we've just watched an assault on that commitment, an unrelenting assault on housing. My hope is that in the context of the neccesary budget restraints, that we can be creative, that we can be thoughtful; but that we will once again reassert the Federal commitment to do something about housing in this country and to avoid the partisan, mindless kind of debate it seems to me that has frozen this city into a state of inaction by both Democrats and Republicans, Congress and the administration, for the last 7 years and I think what you're starting here this morning, with their reauthorization bill, gets us on that track and I'm delighted to be a part of it.

[The complete prepared statement of Senator Dodd follows:]

### OPENING STATEMENT OF SENATOR CHRISTOPHER J. DODD

Good morning. Welcome to those who have come to testify and thank you in advance for the insights and expertise you are sure to offer.

1981 marked the beginning of a Reagan Administration assault on federal housing policy that has proceeded unabated for seven years. And in that time, the focus of the Reagan debate has been primarily a budgetary one. No one on this side of the dais, Democrat or Republican alike, denies the difficult reality of our time—that arduous and painful budgetary considerations constrain every area of policy debate. But, where housing is concerned, the Administration and the Congress have gone far beyond the bounds of reason. In seven years, HUD's budget has been slashed by more than two thirds. And these are not just programs supported by Democrats. Many of these programs are programs developed by Republicans. That's not careful budget cutting. That's the Administration and Congress telling us that the federal government has no business providing housing assistance for poor and middle income Americans. That's the Administration and Congress telling us to forget any timeworn notions of a Federal Housing Policy—that where housing is concerned, it is budgets and budgets only, that are the name of the game.

It is my hope here this morning that we begin the process of dispelling such mistaken and dispassionate intentions. It is my hope after seven long years, that in our discussion and in the legislation before us, we begin again to articulate a Federal Housing Policy—tempered by budgetary reality but driven by our commitment to meet the housing needs of all Americans.

Senator CRANSTON. Thank you very much, Chris. I appreciate that statement of determination that we act and act effectively and we will.

It's now my pleasure to call on the members of the first panel. I want to ask each of you to please summarize your full statement in 5 minutes, giving us the meat of it. We have to recess this hearing at 12:30 and we have four panels, so we don't have too much time for each, but your full statement will appear in the record.

The first witness this morning is Mayor James E. Roark, of Charleston, WV, for the National League of Cities, and we welcome you.

## STATEMENT OF JAMES E. ROARK, MAYOR, CHARLESTON, WV, ON BEHALF OF THE NATIONAL LEAGUE OF CITIES

Mr. **Roark**. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am James E. Roark, mayor of Charleston, WV and I am pleased to be here today on behalf of my city of Charleston as well as the National League of Cities to express our support for maintaining a strong role for the Federal Government in addressing the housing and community development needs of our Nation's cities.

The administration's fiscal year 1988 budget proposals continue—to use Senator Dodd's word—the assault of previous years on Federal housing and community development programs.

The budget proposes deep and retroactive cuts in Community Developments Block Grant [CDBG], UDAG, and HUD and FmHA assisted housing programs.

The National League of Cities strongly opposes the administration's proposed program reductions and elimination of funds for these important programs.

We commend Chairman Cranston, Senator Riegle and other members of the committee who have joined in cosponsoring a resolution to disapprove the HUD rescissions of fiscal year 1987 CDBG and UDAG funding.

These programs are key components of Federal revitalization efforts. They enable cities large and small to undertake housing rehabilitation projects, provide public services, and promote neighborhood economic development.

### DECENT, SAFE, AND SANITARY SHELTER

The cost and access to decent, safe, and sanitary shelter is the single most important determinant shaping a family.

In our Nation, ensuring such shelter for all American families has been a Federal goal for almost 50 years.

As part of this, I would like to introduce into the record a recently completed NLC report on housing needs and priorities entitled: "The Time To Build Up: A Survey of Cities About Housing Policy."

We believe this is a timely report on a topic of great importance to the nation's cities, the programs and policies needed to address the housing problems of low-income households as the committee debates future direction of housing policy. We hope that it will help clarify our Nation's housing needs and to address those needs with adequate policies.

The results of the 444 cities surveyed indicate that broad segments of the U.S. population must struggle with severe housing problems and without a strong Federal role in assisting these people the situation will worsen.

For many Americans, finding shelter has become more urgent, more difficult, more costly, and more frustrating. These needs are not isolated. They exist in all parts of the nation, in communities large and small. The groups facing the most severe problem include the homeless, low-income renters, low-income home owners, families with three or more children, female-headed households, and recent immigrants.

The survey found that in the event Federal housing assistance were cut out entirely, fewer than 4 percent of the cities and towns felt that neither they, their States, nor any other source would have the capacity to provide even half the assistance required to meet their most urgent needs.

The report documents an urgent need to combat this rising tide of despondency and desperation and to put forward a national housing policy that will work.

Financial assistance for renters and rehabilitation of single and multifamily housing should be the top priority for Federal housing aid programs, according to this study.

Interestingly enough, only 5 percent of the cities that were surveyed felt that the administration's Voucher Program was cost-effective or adequate. The most cost-effective Federal programs in their localities, a large majority of the 444 cities said, was CDBG, section 8 certificates, rental rehab grants, and public housing operating and modernization programs.

Let me just say that this survey covered very large medium and very small cities. In my own city of Charleston, WV, the past 3 fiscal years, out of about $6.6 million in the community development block grant allocation, close to $2.4 million has gone toward housing, toward single family residential housing rehab, toward public housing modernization to be combined with comprehensive improvement assistance program [CIAP] moneys, programs for the inducement of housing units and buildings to be renovated, revitalized in the downtown urban renewal area, public housing modernization, housing replacement programs, housing stimulation.

In one particular program using the word that has become so popular—the public-private partnership—we leveraged $125,000 of CDBG moneys into a multimillion dollar private development of rental housing. Our $125,000 went for site improvements. As a result, because of the qualifier, we were able to obtain 11 units of low to moderate income housing out of this project—an example of what we can do when we're allowed to be creative and innovative with our CDBG moneys and with these programs.

In one particular block of our city, we see 1940 public housing being modernized and upgraded; 1970 section 202 elderly high-rise housing, a state-of-the-art senior day care center which was partly contributed by city CDBG moneys, the 55 rental units I previously spoke of, and another private development under a very creative lease-purchase arrangement of some 50 townhouses in the upper to middle income area, making a climate for the so-called urban pioneer to bring people back to our cities so that we can continue the revitalization in those efforts.

My time is up and I will stop with that.

[The complete prepared statement of James E. Roark follows:]

# STATEMENT
# OF
# JAMES E. ROARK, MAYOR OF CHARLESTON, WEST VIRGINIA
# FOR THE
# NATIONAL LEAGUE OF CITIES
# FEBRUARY 17, 1987

Mr. Chairman and Members of the Committee, I am James E. Roark, Mayor of Charleston, West Virginia. I am also the immediate past chairman of the Community and Economic Development Policy Committee of the National League of Cities. I am pleased to be here today on behalf of my city of Charleston and the National League of Cities to express our support for maintaining a strong role for the federal government in addressing the housing and community development needs of our nation's cities.

The Administration's FY 1988 budget proposals continue the assault of previous years on federal housing and community development programs.

The budget proposes deep and retroactive cuts in CDBG, UDAG, and HUD and FmHA assisted housing programs.

NLC strongly opposes the Administration's proposed program reductions and elimination of funds for these important programs.

We commend Chairman Cranston, Senator Riegle and other Members of the Committee who have joined them in co-sponsoring a resolution to disapprove the HUD rescissions of FY 1987 CDBG and UDAG funding.

These programs are key components of federal revitalization efforts. They enable cities large and small to undertake housing rehabilitation projects, provide public services and promote neighborhood economic development.

The cost and access to decent, safe and sanitary shelter is the single most important determinant shaping a family.

In our nation, ensuring such shelter for all American families has been a federal goal for almost 50 years.

The provision of low income housing has been almost uniquely a federal-local responsibility. It is one in which few states have played almost any significant role, except for the issuance of single and multifamily mortgage revenue bonds.

Municipalities are operators of public housing and homeless shelters, and are responsible through zoning, code enforcement, and community development for the shape of housing for all our constituents.

Yet shelter for all Americans is a goal to which the federal government has increasingly turned its back. In no area of federal policy have there been deeper cuts.

The evolution of federal housing policy--direct and through the federal tax code--since 1979 has radically altered the shape of federal policy. It has reaped record numbers of homeless families and children, overcrowded housing, and exorbitant costs.

Still to come is an even worse crisis. As the existing pipeline of housing runs out over the next few years, hundreds of thousands of families will be displaced. We literally have a time bomb just waiting to explode. Expiring Section 8 contracts and prepayments on HUD assisted multifamily projects between now and 1995 threaten to displace over 200,000 American families. I would like to submit for the record two resolutions adopted by our membership last December in San Antonio, which address this issue.

I would note for the Committee our special concern for shelter. Paying the rent has almost always taken precedence over paying for adequate preventive health care, child care, or nutrition. If we cannot provide shelter, then all else is at risk.

At the federal level, we believe three steps are critical:

First, the federal government must recommit itself towards the national goal set in the law by reauthorizing the nation's expired housing and community development laws and setting a firm goal of providing additional units to our housing stock. We believe proposals to fund welfare reform through the termination of federal low income housing assistance would be devastating. Similarly, we believe a failure to address the ticking time bomb will make today's homeless problems and costs appear almost non-existent compared with future problems and costs.

Second, families who cannot afford to own a first or vacation home ought to receive at least as much assistance through direct and tax expenditures as those Americans who are fortunate enough to own currently do. Since 1979 federal housing policy has increasingly shut off those most in need, while overall expenditures have actually increased. The

recently enacted tax reform legislation aggravated the disparity. We expect it will increase rental costs for low income Americans between 15 and 30 percent--in many cases far in excess of the tax relief realized. We strongly support efforts to re-address Senator Mitchell's low income housing tax credit proposal to ensure that it is workable and reaches many more of those in need.

Third, we urge amending Title VIII of the Fair Housing Act to prohibit housing discrimination against families with children. Not only does such discrimination cause undue hardships for families on welfare, but also it increases the cost of what shelter is open to such families.

As you know, Mr. Chairman, since 1980 there has been only one authorization of federal housing and community development programs. In 1985, assisted housing authorizations contained in the Housing and Urban-Rural Recovery Act of 1983 were allowed to expire and last September, for the first time since their enactment, the Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) programs were not reauthorized. Instead, these programs continue year to year in appropriation bills.

We do not believe that this is a responsible way to formulate and implement national housing and community development policies.

NLC strongly supported the efforts of this Committee last year when it approved S. 2507, the Housing Act of 1986. That legislation was the result of bipartisan negotiations to craft a housing and community development reauthorization bill that

RECOGNIZED THE BUDGETARY LIMITATIONS OF GRAMM-RUDMAN-HOLLINGS, WHILE MAINTAINING A MODEST COMMITMENT TO THESE IMPORTANT COMMUNITY REVITALIZATION ACTIVITIES. UNFORTUNATELY, EFFORTS BY THE SENATE TO ACT ON S. 2507 WERE UNSUCCESSFUL AND THE LEGISLATION DIED IN THE WANING HOURS OF THE 99TH CONGRESS.

WE BELIEVE IT IS NOW TIME FOR THIS COMMITTEE TO REASSERT ITS RESPONSIBILITY AND AUTHORITY TO ENUNCIATE HOUSING AND DEVELOPMENT POLICY FOR THE CITIZENS OF OUR NATION.

THE PROVISIONS CONTAINED IN S. 2507 TO REAUTHORIZE THE COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM, TO EXTEND AND IMPROVE THE PROJECT SELECTION CRITERIA OF THE URBAN DEVELOPMENT ACTION GRANT (UDAG) PROGRAM AND TO CONTINUE THE HUD AND FMHA ASSISTED HOUSING PROGRAMS SERVE AS A STRONG FOUNDATION FOR COMMITTEE ACTION. IT PROVIDES A BLUEPRINT FOR MOVING EXPEDITIOUSLY ON THE NATION'S EXPIRED HOUSING AND COMMUNITY DEVELOPMENT LAWS.

IN ADDITION WE URGE THAT THESE PROGRAMS BE REAUTHORIZED FOR THREE YEARS, SO THAT LOCAL OFFICIALS CAN HAVE THE CONTINUITY AND CONSISTENCY PROVIDED BY MULTI-YEAR AUTHORIZATIONS TO DEVELOP AND IMPLEMENT COMPREHENSIVE REVITALIZATION STRATEGIES.

MR. CHAIRMAN, IF I MAY, I WOULD LIKE TO NOW INTRODUCE INTO THE RECORD A RECENTLY COMPLETED NLC REPORT ON HOUSING NEEDS AND PRIORITIES ENTITLED, A TIME TO BUILD UP: A SURVEY OF CITIES ABOUT HOUSING POLICY.

WE BELIEVE THIS IS A TIMELY REPORT ON A TOPIC OF GREAT IMPORTANCE TO THE NATION'S CITIES: THE PROGRAMS AND POLICIES NEEDED TO ADDRESS THE HOUSING PROBLEMS OF LOW INCOME HOUSEHOLDS. AS THE COMMITTEE DEBATES FUTURE DIRECTIONS OF HOUSING POLICY, WE HOPE THAT IT WILL HELP IN THE EFFORT TO CLARIFY OUR NATION'S HOUSING NEEDS AND TO ADDRESS THOSE NEEDS WITH ADEQUATE POLICIES.

THE RESULTS OF THE 444 CITY SURVEY INDICATE THAT BROAD SEGMENTS OF THE U.S. POPULATION MUST STRUGGLE WITH SEVERE HOUSING PROBLEMS, AND WITHOUT A STRONG FEDERAL ROLE IN ASSISTING THESE PEOPLE, THE SITUATION WILL WORSEN.

FOR MANY AMERICANS, FINDING SHELTER HAS BECOME MORE URGENT, MORE DIFFICULT, MORE COSTLY, AND MORE FRUSTRATING.

THESE NEEDS ARE NOT ISOLATED. THEY EXIST IN ALL PARTS OF THE NATION, IN COMMUNITIES LARGE AND SMALL. THE GROUPS FACING THE MOST SEVERE PROBLEMS INCLUDE THE HOMELESS, LOW-INCOME RENTERS, LOW-INCOME HOMEOWNERS, FAMILIES WITH THREE OR MORE CHILDREN, FEMALE-HEADED HOUSEHOLDS AND RECENT IMMIGRANTS.

THE SURVEY FOUND THAT IN THE EVENT FEDERAL HOUSING ASSISTANCE WERE CUT OUT ENTIRELY, FEWER THAN FOUR PERCENT OF THE CITIES AND TOWNS FELT THAT NEITHER THEY, THEIR STATES, NOR ANY OTHER SOURCE WOULD HAVE THE CAPACITY TO PROVIDE EVEN HALF THE ASSISTANCE REQUIRED TO MEET THEIR MOST URGENT NEEDS.

THE REPORT DOCUMENTS AN URGENT NEED TO COMBAT THIS RISING TIDE OF DESPONDENCY AND DESPERATION AND TO PUT FORWARD A NATIONAL HOUSING POLICY THAT WILL WORK.

We as a nation are not doing enough to provide a safety net to help people meet one of life's most basic needs, and it is wrong to assume that there is a single solution to this problem.

Financial assistance for renters and rehabilitation of single and multi-family housing should be the top priority for federal housing aid programs, according to the findings of the NLC survey.

Over 60 percent of the responses listed money payments for rental assistance as one of the top three activities to carry out if all current programs were put aside in order to draw up a new plan for federal housing assistance.

The next priority, rehabilitation of single-family homes, was listed by nearly 53 percent of the group. Multi-family rehabilitation came next with 43 percent.

The survey also found that city officials assign greater importance to the rental assistance certificates for existing housing (Section 8), public housing operating subsidies, and for housing assistance for the elderly and handicapped (Section 202), as compared to the use of housing vouchers. This is in sharp contrast to the Administration's urging that vouchers should replace virtually all other forms of federal housing assistance.

In rating the cost-effectiveness of all federal programs used to provide housing assistance, local officials put the Community Development Block Grant well ahead of all others. Nearly 85 percent listed CDBG as "highly cost-effective," and the support was uniform throughout all regions of the country and among all population categories of cities.

In response to a separate question, the 444 cities said that the "most cost effective" federal programs in their localities are: CDBG, Section 8 certificates, rental rehabilitation grants, and the public housing operating and modernization programs.

Homeless people and low-income renters have the most severe housing problems, especially in large cities and in the Northeast. While these two groups posed "severe" problems in over half of the 444 cities and towns included in the survey, their problems were rated "severe" by nearly 70 percent of the officials in cities above 200,000 population and throughout the Northeast.

The survey results concerning the increasing numbers of homeless are particularly instructive:

Among cities in the West, 64 percent report that homeless people face severe problems. Comparable figures among cities in the other regions are: 61 percent in the Northeast, 57 percent in the South, and 49 percent in the North Central.

Among large cities (over 200,000), 64 percent say that homeless people face severe problems. Sixty-three percent of medium sized cities (50,000 to 200,000) and 48 percent of small cities report that these problems are severe.

It becomes clear that the problems of the homeless in both urban and rural communities across the nation are urgent and pervasive.

THE HOMELESS POPULATION IS INCREASINGLY COMPRISED OF FAMILIES, AND LARGELY OF FAMILIES HEADED BY WOMEN. IT IS ALSO A POPULATION WHICH DISPROPORTIONATELY NUMBERS MINORITIES, PEOPLE WITH PHYSICAL AND MENTAL DISABILITIES AND OTHERS WHO HAVE EXPERIENCED ECONOMIC MISFORTUNE.

TO ADDRESS THE IMMEDIATE PROBLEMS OF THE HOMELESS, WE URGE THE COMMITTEE TO CONSIDER PROVISIONS CONTAINED IN H.R. 558, THE URGENT RELIEF FOR THE HOMELESS ACT. IT WOULD AUTHORIZE THE APPROPRIATION OF $500 MILLION THIS YEAR FOR ADDITIONAL ASSISTANCE TO THE HOMELESS, INCLUDING FUNDING FOR EMERGENCY SHELTERS, NEW ASSISTED HOUSING UNITS SPECIFICALLY TARGETED FOR HOMELESS FAMILIES, USE OF SURPLUS FEDERAL FACILITIES, AND INCREASED MEDICAL CARE AND COMMUNITY HEALTH EFFORTS.

LONGER TERM SOLUTIONS TO THE HOMELESS PROBLEM WILL REQUIRE A MORE COMPREHENSIVE APPROACH INCLUDING NOT JUST GREATER RESOURCES DEVOTED TO PROVIDING AFFORDABLE HOUSING, BUT ALSO ADEQUATE INCOME SUPPORT, BETTER JOB TRAINING AND EMPLOYMENT ASSISTANCE AND INCREASED AID FOR HEALTH AND MENTAL HEALTH ACTIVITIES.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THE COMMITTEE AND EXPRESS OUR VIEWS ON THESE IMPORTANT HOUSING AND ABOVE ALL, HUMAN ISSUES.

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## CONTINUATION OF FEDERAL MORTGAGE INTEREST SUBSIDY PROGRAM

WHEREAS, the Federal government has, for the past quarter century, provided developers of low- and moderate-income housing projects with mortgage-related subsidies; and

WHEREAS, these housing projects have been identified according to the subsidy program attached, namely HUD Section 236, HUD Section 221(d)(3) and FmHA Section 515; and

WHEREAS, as an inducement to for-profit developers, the HUD Section 236 and 221(d)(3) programs offer mortgage prepayment options at the end of the 20th year and 40-year mortgages; and

WHEREAS, as a similar inducement, the FmHA Section 515 places no restrictions on mortgage prepayments; and

WHEREAS, the U.S. General Accounting Office estimates that, as a result of these mortgage prepayment options, as many as 173,000 units (50% of total) of HUD Sections 236 and 221(d)(3) housing and 275,000 units (100% of total) of FmHA Section 515 housing may be lost by the year 2005;

NOW, THEREFORE, BE IT RESOLVED that the National League of Cities urges:

- local elected officials to examine the potential impact of the loss of low- and moderate-income housing units in projects receiving Federal mortgage interest subsidies;
- Congress and the Federal government to identify and, where necessary, develop incentives to prevent the prepayment of Federally subsidized mortgages and, in so doing, retain the nation's stock of privately owned, Federally subsidized low- and moderate-income housing; and
- state and local governments to identify and develop similar incentives as an added means of preserving this segment of our nation's low- and moderate-income housing stock.

Senator **Cranston**. Thank you very much for your helpful testimony.

We will next hear from Mayor William J. Althaus of York, Pennsylvania, representing the U.S. Conference of Mayors.

## STATEMENT OF WILLIAM J. ALTHAUS, MAYOR, YORK, PA, ON BEHALF OF THE U.S. CONFERENCE OF MAYORS

Mr. **Althaus**. Thank you very much, Mr. Chairman. I am a Cochair with the mayor of Louisville, KY of our task force on the reauthorization of community development block grants. This is a bipartisan effort. Senator Dodd alluded to the fact that this program, as well as the Revenue Sharing Program we lost last year, were both Republican programs and my colleague to the left, my good friend Mike Roark is also a Republican. I am a past president of the National Conference of Republican Mayors and in that capacity I have said numerous times that the cities of America must be willing to take their share of cuts in the various programs which we have enjoyed over the years.

I continue to believe that that's so, but I would state most emphatically that we have taken our share and more of such cuts.

It has become fashionable recently to characterize cities or local government in general as a special interest group. That's always fascinated me because we are not a special interest group. We are the most direct unit of government serving the people.

In the cities of America we house and serve the poor, the old, the handicapped, the minorities, the non-English speaking. We house and care for those who need services most and can least afford to pay for them. We have thus far taken our share of cuts.

### URBAN PROGRAMS DOWN 67 PERCENT IN LAST FEW YEARS

Urban programs in this country in the last few years have gone down 67 percent. Housing programs have gone down 70 percent and that is not adjusted for inflation. I would submit, Mr. Chairman, that this budget problem which we face and all acknowledge cannot be solved solely by cutting further into urban programs. It simply isn't possible.

In my city of York, PA, over half of our community development block grant funding goes into low-income housing, 20 percent goes to neighborhood agencies and programs, almost 10 percent goes into blight removal and public works projects. It is primarily and most importantly a people program with assistance for the low income and the neighborhood groups in our city.

It is not, as it has been characterized, public works funding. It is not bricks and mortar. It is people.

The Federal Community Development Block Grant Program, Urban Development Action Grant, and Housing Programs work. This is not a case of the organizations representing urban America saying, "Cut somebody else's programs, don't cut ours."

Mr. Chairman, ours have been cut. They have been cut substantially. The loss of revenue sharing last year, the cumulative effect of that, would make it very difficult indeed for any of the targeted low-income assistance programs which we run to be picked up by the taxpayers out of local funding. The money is not there. It probably wasn't there before the loss of revenue sharing, but it is most emphatically not there now.

I would request, Mr. Chairman, that the United States Conference of Mayors 1987 analysis of the Federal budget in the cities be admitted into the record. I will not attempt to read or summarize it.

Senator CRANSTON. It will appear in the record.

[The following information was subsequently furnished for the committee:]

## RENEWAL OF SECTION 8 RENTAL SUBSIDIES

WHEREAS, Section 8 of the Housing and Community Development Act of 1974 provides for rental subsidies which enable eligible low-income families to afford decent quality housing; and

WHEREAS, the Section 8 rental subsidy program has been a critical and effective mechanism for achieving the goal of a decent home in a suitable living environment for every American; and

WHEREAS, the demand for Section 8 subsidies continues to exceed the available supply as housing costs escalate and affordable units diminish; and

WHEREAS, Section 8 certificates are used in two ways: (1) to subsidize unit rents in "new construction" and "substantial rehabilitation" projects (project-based), and (2) to subsidize tenants' rent in "existing" private housing (tenant-based); and

WHEREAS, the U.S. General Accounting Office estimates that between 880,000 and 1.1 million "project-based" certificates will expire between the years 1985 and 2005 unless renewed; and

WHEREAS, the failure to renew such certificates will reduce the already low supply of decent, affordable housing for low- and moderate-income families and threaten the financial viability of existing housing projects; and

WHEREAS, Section 8 "existing" certificates are increasingly being converted to housing vouchers with 5-year rather than 15-year contract periods;

NOW, THEREFORE, BE IT RESOLVED that the National League of Cities strongly urges the Congress and the President, through the Department of Housing and Urban Development, to renew Section 8 rental subsidy certificates attached to "new construction" and "substantial rehabilitation" projects.

BE IT FURTHER RESOLVED that the National League of Cities opposes the conversion of Section 8 "existing" certificates to housing vouchers and, instead, urges their extension for full 15-year additional period.

# THE FEDERAL BUDGET AND THE CITIES

*A Review of the President's Budget*
*for Fiscal Year 1988*
*October 1, 1987 to September 30, 1988*

**JANUARY 1987**

Prepared by
**UNITED STATES CONFERENCE OF MAYORS**
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## PREFACE

This report, The Federal Budget and the Cities, examines the President's proposed budget from an urban perspective. It begins with a general overview of the budget and then addresses the various federal functions that are present in the nation's cities.

The budget is the single most important federal document published each year. It is the vehicle for formulation of national economic and fiscal policy and represents the most significant and comprehensive collection of the priority decisions that the United States government makes in the course of the year.

The Fiscal Year 1988 budget comes at a time of continuing national concern with unemployment, illicit drug activity, public health threats, hunger and homelessness. It also comes at a time when many cities continue to experience deterioration of their infrastructures, and severe economic and fiscal problems. And this year, the deficit reduction target mandated by Gramm-Rudman-Hollings adds to the concern of urban leaders.

This budget analysis is prepared by the staff of the U.S. Conference of Mayors. The Conference, established in 1933, represents the largest cities in America -- those with populations of 30,000 or more. Judgements made in this analysis are based on policies adopted by the members of the Conference.

John J. Gunther
Executive Director
U.S. Conference of Mayors

January 6, 1987

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## OVERVIEW

While some positive points may be found in the Administration's budget proposal for Fiscal Year 1988, on balance it represents a short-term, short-sighted reaction to the federal deficit problem. More specifically, it is a budget proposal dominated by the arbitrary targets of the Gramm-Rudman-Hollings deficit reduction legislation, hemmed in by the Administration's inflexible commitment to escalating defense spending, and by its unwavering opposition to tax increases.

The Administration's proposal for FY88 projects $1.024 trillion in spending and $916.6 billion in receipts. The resulting $107.8 billion deficit is just under the $108 billion Gramm-Rudman-Hollings deficit target for FY88. The budget projections are based on economic growth assumptions of 3.1 percent in 1987 and 3.5 percent in 1988 (GNP growth in constant dollars). These assumptions are substantially higher than the estimate for 1986 (2.7 percent) and the projections of most private economists. Slower economic growth would cause higher spending and reduced revenues, resulting in a larger deficit than the proposed budget projects.

The FY88 proposal includes spending increases for defense and a number of other programs, but balances these with a $42.4 billion package of deficit reduction measures in order to meet the Gramm-Rudman-Hollings target. Spending cuts, including many cuts and terminations of urban programs, represent $18.7 billion of the deficit reduction in the package. $22.4 billion is derived from "revenue changes" which include new tax collection procedures, sale of federal loans and other assets, and more user fees -- but no tax rate increases or major new taxes. The remaining $1.3 billion represents reduced interest charges.

The Conference of Mayors has long recognized that the federal deficit must be brought under control and that the nation must maintain an adequate defense. The Conference has also acknowledged that in order to meet these goals without decimating domestic spending programs, increases in federal revenues -- through means other than the personal income tax -- must not be ruled out.

Members of the Conference of Mayors are responsible for planning for the future of their communities. They know that failure to make certain key investments now, whatever the pressure of the moment to hold back on those investments, is to compromise that future, to rob our children and grandchildren of their potential and their heritage.

From this perspective, the deficiencies of the Administration's budget proposal are clear, and they are serious.

- The Administration's proposal would continue the erosion of the federal/city partnership for community and economic development and maintenance of the urban infrastructure. It would again cut funding for Community Development Block Grants, mass transit and housing, would terminate Urban Development Action Grants and the Economic Development Administration, and would phase out construction grants for wastewater treatment plants.

- The budget proposes further spending cuts in the programs which invest in the future of our citizens -- in their education, their health, their safety, their preparation for employment. Postponing investments in these areas is particularly short-sighted; it will lead to higher costs in future years and for future generations. The budget also proposes cuts in many of the programs which provide income assistance and basic support services to the poor -- at a time when hunger, homelessness and poverty are increasing in many of the nation's cities.

- The budget continues the distressing trend of dumping federal fiscal problems on local government through changes in the tax code and other revenue measures; it imposes on state and local governments an additional $2.5 billion in mandated costs and revenue reductions in FY88. Cities have limited and frequently regressive tax bases, and are in danger of losing their capacity to finance basic services as they must cope with an increasing burden of federal mandates and federal encroachment on local revenues and financing tools. An increased capacity for leadership and action has developed because of the cities' partnership with the federal government over the past several decades; there is now a real threat that federal dumping of fiscal problems at the local level will cripple the ability of city governments to maintain this capacity in the years ahead.

Among the program proposals of particular concern in this budget document are the following:

- The absence of a General Revenue Sharing program in FY88.

- Rescission of $375 million from the current $3 billion FY87 budget for the Community Development Block Grant, and reduction of funding to $2.6 billion in FY88.

- Termination of the Urban Development Action Grant program in FY88, and rescission of all but $20 million of the current year's appropriation.

- Emphasis on vouchers for assisted housing, with no significant new housing construction.

- Termination of the Economic Development Administration with the rescission of $125 million of the current year's funding.

- A 60 percent cut in public transportation aid -- from $3.56 billion in FY87 to $1.37 billion in FY88.

- A one-third cut in wastewater treatment grants, and termination of the program by FY93.

- A $4.7 billion cut in Medicare in FY88, and the generation of $2.3 billion in new revenue, in part from mandatory coverage of state and local employees and increases in the Medicare premium level.

- A $1 billion cut in Medicaid payments for health care for the poor.

- No new funding for the Section 202 housing program for the elderly.

- Cuts in all three programs providing assistance to state and local governments under the Anti-Drug Abuse Act of 1986.

- A one-fourth cut in funding for education programs, primarily through the elimination of vocational education and major reductions in student financial assistance and loan programs.

- Current fiscal year rescissions of $332 million in the Job Training Partnership Act.

- Nearly $800 million in cuts in nutrition programs in FY88.

- Elimination of the Legal Services Corporation and the Work Incentive Program.

- Cuts in several income security programs for the poor, including Aid to Families with Dependent Children, totalling about $1.15 billion.

- Elimination of all programs providing direct financial assistance to state and local law enforcement agencies.

The shifting of federal revenue problems to local governments takes several forms:

- Extending Medicare coverage to all state and local employees is estimated to cost $1.6 billion in FY88.

- Repealing the exemptions from gasoline and other highway excise taxes is expected to cost local governments $600 million in FY88.

- Changing the basis for sharing receipts from mineral leasing and timber sales on federal lands from gross to net receipts would cost state and local governments an estimated $340 million in FY88.

The President's budget also contains several proposals to create or increase funding for programs of benefit to cities. Among these: a 28 percent increase for AIDS research and education; a $10 million increase in the Emergency Food and Shelter Program; the addition of nearly $100 million for acid rain research; the creation of a new $85 million demonstration program to reduce infant mortality through case management.

With this budget analysis as a base, the Conference of Mayors stands ready to work with the Administration and the new Congress on a federal budget that encourages, not discourages, the development of strong local economies throughout the nation. The Conference stands ready to work toward a federal budget that strikes a true balance between the needs of our citizens and the constraints of current fiscal policy.

## KEY URBAN PROGRAMS

### A 10 Year Perspective

(Budget authority in billions)

| | FY78 Actual | FY88 Proposed |
|---|---|---|
| Community Development Block Grants | $3.6 | $2.6 |
| Urban Development Action Grants | .4 | -0- |
| General Revenue Sharing | 6.9 | -0- |
| Urban Mass Transit | 2.0* | 1.4 |
| Employment and Training | 9.6* | 3.4 |
| Economic Development Administration | .5 | -0- |
| Law Enforcement Assistance | .6 | -0- |
| Clean Water Construction | 4.5 | 2.0 |
| | $28.1 | $9.4 |

| | |
|---|---|
| Total DECREASE in actual dollars | -67% |
| Total DECREASE adjusted for inflation | -80% |

| | | |
|---|---|---|
| Assisted Housing (in units) | 338,000 | 102,000 |

| | |
|---|---|
| Total DECREASE in households assisted | -70% |

| | | |
|---|---|---|
| Defense | $117.9 | $312.0 |

| | |
|---|---|
| Total INCREASE in actual dollars | +164% |
| Total INCREASE adjusted for inflation | +56% |

*Outlays

## PROPOSED FY88 REDUCTIONS IN SELECTED FEDERAL-URBAN PROGRAMS

| PROGRAM | CHANGE IN BILLIONS OF DOLLARS FY87 TO FY88 |
|---|---|
| Community Development Block Grant | - .40 |
| Urban Development Action Grants | - .23 |
| HUD Assisted Housing | -3.90 |
| Rental Rehabilitation Grants | - .13 |
| Housing Development Action Grants | - .10 |
| Economic Development Administration | - .19 |
| Clean Water | - .40 |
| Mass Transit | -2.10 |
| Drug Enforcement | - .23 |
| Juvenile Justice | - .07 |
| Justice Assistance | - .04 |
| Education | -5.50 |
| Food Stamps | - .28 |
| Child Nutrition | - .47 |
| Medicare | -4.70 |
| Medicaid | -1.30 |
| Social Services | - .07 |
| Legal Services Corporation | - .31 |
| Work Incentive Program | - .10 |
| Aid to Families with Dependent Children | - .32 |
| Child Support Enforcement | - .15 |
| Low Income Home Energy Assistance | - .60 |
| Refugee and Entrant Assistance | - .09 |
| TOTAL | -21.68 |

Mr. **Althaus**. Thank you very much.

Our position is fundamentally that we have taken our share of the cuts. You cannot balance this budget by cutting further into urban programs and these programs very simply work. They take care of people who need help as a matter of public and national policy and we appreciate your listening to us on the reauthorization of these housing and community development programs.

Thank you.

[The complete prepared statement of William J. Althaus and the research report of the National League of Cities follow:]

## AGING

The Administration's FY88 budget requests a number of changes which will adversely affect programs that benefit the elderly. These include no new funding for the Section 202 elderly housing program; reductions in health benefits and increased out-of-pocket expenses in the Medicare program; reductions in aging research and training programs; and the folding-in of funds for nutrition and social services programs of the Older Americans Act with other human service programs.

- The FY88 budget provides no new funds for Section 202 elderly housing (with its accompanying Section 8 rent subsidy). Rather, the Administration will request that 2,000 units ($91 million of direct loan and $267 million for rent subsidy) of the 12,000 units funded for FY87 be postponed to FY88.

- The budget proposes that Medicare funding of $81.9 billion include a number of legislative and regulatory changes to reduce outlays by $4.7 billion and increase revenues by $2.3 billion. These proposed actions include: a delay in initial Medicare coverage ($295 million); reduction in physicians' fees ($200 million); repeal of a number of new services provided in the Omnibus Reconciliation Act of 1986 ($323 million); and an increase in Part B premiums ($571 million).

- The budget proposes that funding for Older Americans Act programs be included within the proposed Social Services Discretionary Programs to be funded at $2.2 billion, a $69 million reduction below the current FY87 level. While the budget does not specify the funding level for each of the 26 programs of the proposed consolidated funds, it anticipates the transfer of $12.5 million (which is half of FY87 funds) for aging research and training. Older Americans Act programs up for reauthorization in 1987 were appropriated in FY87 at $725 million; these include: support services and centers ($270 million); congregate meals ($348 million); home-delivered meals ($74 million); and training and research ($25 million).

In 1986 the Census Bureau reported that the number of persons aged 65 or older living in poverty had increased 126,000 (3.5 million in 1985 compared to 3.3 million in 1984), representing the highest poverty rate (12.6 percent) among adults. Each day over 5,000 persons reach the age of 65; this represents a net increase of over a half-million each year. At a time of increasing numbers of older persons, particularly the very old, combined with proposed cuts in many federal programs that directly and indirectly benefit the elderly, cities are being asked to assume increased responsibilities.

## ARTS AND HUMANITIES

### National Endowment for the Arts (NEA)

The FY88 Administration budget request for the National Endowment for the Arts is $145.2 million. The request is $19.9 million, or 12 percent, less

than the $165.1 million in funds appropriated by Congress in FY87. Programs in the NEA of special interest and support to cities are the Design Arts Program, the Visual Arts Program, and the Local Programs, which help to support local arts agencies.

### National Endowment for the Humanities (NEH)

The National Endowment for the Humanities supports research, scholarship, education, and general audience programs in the humanities. The Administration's FY88 budget request is $126.89 million, or $15.6 million (10.9 percent), less than the Congressional FY87 appropriation of $142.49 million. NEH programs of importance to cities include humanities instruction in elementary schools, secondary schools, and institutions of higher learning, many of which are in cities; fellowships and seminars for college and secondary school teachers, independent scholars, and younger scholars; public humanities projects; and humanities projects in museums, historical organizations, and libraries.

### Institute of Museum Services (IMS)

The Institute of Museum Services provides funds through annual, competitive grant programs to help the nation's museums meet operating expenses and conservation needs. In its FY88 budget request, the Administration has requested $19.25 million for the IMS, a substantial increase over its $330,000 request in FY87. Still, this represents a decrease of $2 million from the FY87 Congressional appropriation of $21.25 million.

## COMMUNITY DEVELOPMENT AND HOUSING

### Community Development

In the Administration's FY88 proposal, Community Development Block Grants (CDBG), funded at $3 billion in FY87, would face a $375 million rescission, of current budget authority; the lower FY87 funding level produced by the rescission, $2.6 billion, is proposed again for FY88. To accompany the cut in CDBG the Administration would develop a targeting plan to direct funds to communities showing the greatest need. The budget also proposes that new housing construction be considered an eligible CDBG activity.

The budget proposes that the Urban Development Action Grant (UDAG) program be terminated. The Administration also proposes to rescind all but $20 million of the FY87 UDAG appropriation of $225 million. This would include the January metro round. The Section 312 Rehabilitation Loan and Section 108 Loan Guarantee programs are also terminated.

### Housing

The Administration proposes to continue to emphasize vouchers as the "cornerstone" of its housing policy. Hence, the budget proposes to provide 99,000 additional vouchers (79,000 Housing and Urban Development vouchers and 20,000 Farmers Home Administration vouchers). In addition, the budget proposes to provide 3,000 units of new housing construction specifically for

Indians and for the elderly and handicapped. In sum, the Administration proposes to provide 102,000 additional households with subsidies in FY88.

As for public housing, the budget proposes $1 billion for modernization, and $1.462 billion for public housing operating subsidies. The Administration proposes a shift of $436.9 million of public housing modernization FY87 funds to FY88, which would result in a $1 billion program for each fiscal year. The budget also proposes that $85.3 million of appropriated public housing operating funds be shifted from FY87 to FY88. According to HUD, these shifts are not deferrals under the Impoundment Control Act. Supplemental language will be sent to Congress to request the shift of these funds.

There are a number of other rescissions of FY87 funds in the FY88 budget: 2,500 units are rescinded from the appropriated 7,500 for Section 8 Moderate Rehabilitation; the entire appropriated $99.5 million for Housing Development Grants (HoDAG) is rescinded; $125 million of the $200 million appropriated for Rental Rehabilitation is rescinded, leaving $75 million. The Rental Rehabilitation program would be funded at $75 million in FY88.

## DEFENSE

Total defense spending authority would increase to $312 billion under the Administration's budget proposal for FY88, about a 3 percent increase in after-inflation dollars from the level approved by Congress for FY87. Defense spending represents 29 percent of total proposed spending for FY88. In addition, the Administration is requesting a $2.8 billion supplemental appropriation for defense in the current budget year. To accommodate the additional defense spending without increasing the FY87 budget, the Administration is proposing rescissions in non-defense program spending already appropriated for this year, including cuts in priority city programs.

## DRUG CONTROL

The budget proposes sharp reductions in FY88 in the funds provided by the Anti-Drug Abuse Act of 1986 to assist state and local governments in combatting the drug epidemic: 1) No funds are included for assistance to state and local law enforcement ($225 million was authorized for this in FY87); 2) the $252 million included in the Act for research and treatment is to be spread over FY87 and FY88; and 3) $100 million is included for drug education; this is half of the FY87 level.

Funding for the Alcohol, Drug Abuse and Mental Health Block Grant will continue at the current level of $495 million.

The budget requests an additional $61.3 million to increase personnel in the Drug Enforcement Agency, the Federal Bureau of Investigation, U.S. attorneys' offices and other parts of the Department of Justice.

## ECONOMIC AND BUSINESS DEVELOPMENT

A major change from previous Administration budgets is the continued funding for the Small Business Administration, although this would be at the cost of terminating the Minority Business Development Agency within the Department of Commerce. In previous years, the Administration has proposed the opposite: the consolidation of SBA's programs into MBDA. In FY88, it is proposed that MBDA's programs be consolidated into SBA's Office of Minority Small Business and Capital Ownership Development. The Administration also proposes the sale of a portion of SBA's related loans in the government's portfolio.

Once again, the Administration proposes the elimination of the Economic Development Administration. The Administration also proposes a rescission of $125 million to terminate the EDA's assistance programs this year.

The International Trade Administration, which has responsibility for trade development and administration, is to receive a slight increase in its proposed budget, while the U.S. Travel and Tourism Administration will continue to be funded at $12 million, only if new user fees are collected from the travel industry.

## EDUCATION

The Administration proposes rescissions of approximately $2.5 billion in this year's $19.5 billion budget for the programs under the Department of Education, and further cuts of $3 billion in FY88. This effectively cuts the Department's budget by about one-quarter, reducing it to $14 billion in FY88. Three programs absorb the bulk of the proposed cuts. Vocational education, for which $900 million was appropriated in FY87, is proposed to be eliminated in FY88. Student financial assistance is proposed to be reduced from $5.5 billion in FY87 by a $1.3 billion rescission, and to be further reduced from this level to $3.3 billion in FY88. The Administration proposes a rescission that would cut guaranteed student loans from the estimated FY87 level of $3.3 billion to $2.7 billion, and then to reduce the program further to $1.2 billion in FY88.

## EMPLOYMENT AND TRAINING

Funding for employment and training would increase to $4.4 billion in FY88 from the current level of $3.7 billion. Funding for the Job Training Partnership Act (JTPA) would be reduced to $3.4 billion in FY88, but a new propgram for displaced workers is proposed, with funding requested at $980 million. The budget proposes two new initiatives.

The first new initiative is the $980 million, redesigned worker adjustment program which would meet the needs of all dislocated workers, regardless of their reasons for unemployment. Funding would be generated by the transfer and/or rescission of funds in Employment Services and Unemployment Insurance; also an estimated $640 million would come from new revenues.

The second requests an amendment to Title II of JTPA, replacing the current Summer Youth Employment Program with a program allowing local areas to provide additional services. These services could include a year-round training program for AFDC youth between the ages of 14 and 21. Local areas would have the option of utilizing this new program or continue with the traditional summer (II-B) program for economically disadvantaged youth. This program would be funded at $800 million, representing an increase in FY88 of $50 million over the $750 million authorized for the Summer Youth Employment Program for FY87.

A rescission of $332 million is proposed in FY87 for the Employment and Training Services function, including reductions in the Block Grant, SYEP, and the Dislocated Worker (Title III) Assistance Program.

The FY88 budget request includes $1.78 billion for the basic grants, a continuation of the FY87 dollar level.

The Job Corps program, which provides remediation and vocational skills training to disadvantaged youths between 16 and 21 years of age, would remain at approximately the current funding level ($651.7 million) in order to maintain all existing centers.

Other Programs

The Administration is requesting $200.9 million for National Programs for FY88. This would include assistance to Native Americans, migrants and seasonal farmworkers, veterans, national commissions and pilot demonstration efforts. This represents approximately $9 million less than was appropriated for FY87.

The WIN program is again slated for elimination. This program is designed to help AFDC recipients obtain employment.

The Comprehensive Community Service Employment Program would remain at the FY87 level of $326 million. This jobs program is authorized under Title V of the Older Americans Act.

The Administration proposes to eliminate all federal support for vocational education; $900 million were appropriated in FY87.

The Program Year

JTPA established a nine-month forward-funding cycle by creating a program year period which begins July 1 and ends June 30. The FY88 budget proposal for JTPA is for expenditures that will begin on July 1, 1988 and run through June 30, 1989. The newly-proposed dislocated worker program would operate on a normal fiscal year basis, as opposed to its current JTPA program year basis.

## ENERGY

The Administration's FY88 budget proposal for the Department of Energy is $13.9 billion, a 10 percent increase over the FY87 budget. Actual program activity, however, is essentially unchanged, due to substantial funds that were carried over to FY87 from prior years. Budget requests for defense activities and nuclear waste activities are up slightly again this year; but programs of importance to cities are sharply curtailed, and $256.7 million in FY87 rescissions--mostly from urban programs--are being proposed to Congress.

In the research and development area, the largest cuts are in conservation research and development at $80.1 million, down from $161.1 million in FY87; solar and other renewables at $93.6 million, down from $146.3 million; and fossil energy at $169.4 million, down from $301.9 million last year. These programs also are the targets of $75.6 million in proposed rescissions for FY87.

The Administration proposes no federal funds in FY88 for the conservation grants program, which has provided funds to state and local governments to undertake energy conservation measures. The budget document notes that the states have available large sums specifically earmarked for conservation and other energy-related activities from settlement of oil pricing and allocation violations. In addition, rescission of $112.4 million in FY87 funds is proposed, thus limiting FY87 funds for this program to $134 million in non-federal funds from oil overcharge settlements.

In this year's budget document, the Administration restated last year's proposals for selling the Naval Petroleum Reserves at Elk Hills (CA) and Teapot Dome (WY) and the five power marketing administrations.

## ENVIRONMENT

The Administration's budget for environmental programs, for the first time in years, calls for increases in funding for some very important programs to cities. Still, in perhaps the largest of all federal urban environmental programs - the Construction Grant Program for wastewater treatment plants - the Administration has again called for program termination by FY93. A closer look at the budget reveals:

- The Funding of Construction Grants at $12 Billion Through FY93 - This funding amount is $6 billion less than that level which would have been authorized by the Clean Water Act, pocket vetoed by the President at the close of the 99th Congress.

- Operating Program Workyears Reduced by One Percent at EPA - The EPA operating budget supports basic implementation of federal environmental programs and assistance. While most programs lose proportionally in the FY88 budget, water quality programs lose the most, with small increases proposed in pesticides and hazardous waste. In addition state and local grants for environmental programs are up $9 5 million over FY87.

- Addition of Clean Coal Technology Demonstrations and Acid Rain Research - The budget, in an effort to implement the Special Envoys' Report on Acid Rain, calls for $96.5 million in acid rain research. Included in this amount is $7 million for retrofitting coal fire burners.
- Creation of a Well Head Protection Planning Program at State Level - Included in the funding request for the implementation of the Safe Drinking Water Act is $8 million for state well head protection planning programs.
- Superfund - Under the Superfund Amendments of 1986, an independent source of funding -- the superfund environmental tax -- was legislatively created. This new funding source is expected to generate $1.6 billion in superfund revenues for FY88; this is the amount being requested by the Administration. However, the Administration's request is still $225 million less than the authorization level.

## FISCAL ASSISTANCE

The Administration proposes no funding for General Revenue Sharing grants in FY88; $228,000 in outlays would be provided for staff and other expenses associated with closing down the Treasury Department's Office of Revenue Sharing. A small Interior Department program of payments-in-lieu of taxes would remain at the FY87 level of $105 million. However, the Administration is again proposing that sharing with state and local governments of receipts from mineral and timber exploitation on federal lands be on a net rather than the traditional gross basis; this change would reduce state and local receipts from $800 million in FY86 to $460 million in FY88, for a loss of about $340 million.

## FOOD STAMPS AND NUTRITION

The FY88 budget proposes $11.7 billion for the Food Stamp Program, a reduction of $109 million from FY87 funding and $278 million less than provided for in current law. The Administration proposes to cut $264 million by withholding funds from states for erroneous food stamp payments. Nutrition assistance for Puerto Rico is proposed at $825 million in FY88, a reduction of $27 million from FY87, which returns the program to the level it was at when it was enacted in 1982.

Supplemental nutrition assistance for Women, Infants, and Children (WIC) is proposed at $1.7 billion, an increase of $24 million from FY87. This amount will support 3.3 million participants per month, less than the 3.4 million participating under the FY87 program. Proposed cuts in child nutrition programs total approximately $470 million below the FY87 funding level. The largest cut is in the school lunch program--from $2.8 billion in FY87 to $2.5 billion in FY88; the Administration is proposing to eliminate nutrition subsidies for meals served to children from families with incomes above 185 percent of the poverty level. Funding proposals for other child nutrition programs are as follows: school breakfast ($454 million or $2 million more than FY87); child care feeding ($373 million, $163 million less than FY87); and summer feeding ($115 million, $12.8 million less than FY87). The Administration proposes to eliminate the special milk program ($18.3 million in FY87) and nutrition education and training ($5 million in FY87). As in past years, the FY88 budget calls for the elimination of the temporary emergency food assistance program, which is presently at $50 million.

## HEALTH

The President's FY88 budget proposes large reductions in spending for federal programs affecting the health of city residents: overall, the Administration proposes a $6.7 billion reduction in major medical programs from the projected FY88 level of spending for current services. The largest federal health program, Medicare, providing health insurance for the elderly, poor and disabled, is scheduled for a $4.7 billion reduction from current services and an increase of $2.3 billion in revenue generated through legislative and regulatory initiatives. Proposed alterations for this program include increasing revenues through mandatory coverage of all state and local employees ($1.6 billion); increasing Medicare Part B premiums to 25 percent for current enrollees, 35 percent for new enrollees and 50 percent for third party payers ($571 million); and repealing provision of last year's budget law which expanded coverage to vision care, additional occupation therapies, and the services of physician assistants ($323 million).

(The budget document contains no mention of the expansion of the Medicare system to cover catastrophic health insurance, proposed last November by Department of Health and Human Services Secretary Otis Bowen in response to President Reagan's "State of the Union" address request.)

Administration proposals for Medicaid, the federal health care program for the poor, would limit federal payments to $25.4 billion in FY88, a $1.3 billion cut from current spending projections. Additionally, the President's budget would reduce spending by $360 million in FY88 through the elimination of all special matching rates for state and local administrative costs, including fraud control, and would reduce matching payments for excessively high administrative costs. The Administration proposes to undertake a new $85 million initiative to reduce infant mortality through demonstration and waiver projects to provide comprehensive case management to pregnant women, including teenagers.

Funding for AIDS research and education is requested at a $534 million level, a $118 million increase (28 percent) over the FY87 amount. Funding for major block grants (Maternal and Child Health, Community Centers and Preventive Health Services) are retained at their FY87 levels ($478 million, $400 million and $90 million, respectively). In addition, the Administration's budget would rescind $74 million in FY87 funds for the care of "high income" non-service-disabled veterans.

## HUMAN SERVICES

In the Administration's FY88 budget request, a variety of social service programs, including Head Start, child welfare and Older Americans Act programs would be combined in a "generic appropriation request" for social services discretionary programs of $2.2 billion, $69 million below the FY87 level for these programs. The FY88 budget published by the U.S. Department of Health and Human Services explains that "this generic request is in no way a block grant consolidation proposal," and that funding allocations among the programs included would be made by the Department. Several discretionary programs now under family social services would be transferred to the generic appropriation, leaving only the foster care and adoption assistance entitlements in that category.

Supplemental funds of $165 million are requested for family social services for FY88; all but $43 million of these funds would come from other programs, including aging research, child welfare services and the Social Services Block Grant. Funding for the Social Services Block Grant is requested at $2.7 billion, the FY87 level.

Both the Legal Services Corporation and the Work Incentive Program are slated for elimination in FY88. FY88 funding of $310 million, $58 million below the FY87 level, is proposed for the Community Services Block Grant, to begin a phase-out of the program, according to the budget document.

### Homelessness

For the first time the Administration proposes funding that relates to homelessness. For FY87 Congress appropriated $70 million for the Emergency Food and Shelter Program administered by the Federal Emergency Management Agency; the Administration proposes $80 million for this program in FY88. In FY87 Congress also provided $10 million for a shelter rehabilitation program administered by the Department of Housing and Urban Development; the Administration requests no funds for this program in FY88. The transitional housing demonstration program, funded by Congress at $5 million in FY87, would be continued at its current level in FY88. Funds for the National Institute of Mental Health's Community Support Program would increase, with $20 million to be available (a $5 million increase over FY87) for demonstrations that provide mental health services to the homeless mentally ill.

## IMMIGRATION REFORM

The FY88 budget includes funding to implement the Immigration Reform and Control Act, passed by the 99th Congress. This landmark immigration bill legalizes certain illegal aliens; reimburses state and local governments for four years for the cost of providing benefits to those legalized through the bill; prohibits the hiring of illegal aliens; establishes a special legalization program for foreign agricultural workers; and increases border enforcement. The Administration is proposing $216.5 million for the Immigration and Naturalization Service and for other agencies of the Department of Justice to implement the new law in FY88. The budget request also includes a FY87 supplemental appropriation of $138 million for INS to start carrying out the legislation. An additional $149 million is expected to be obligated in FY87 and $181 million in FY88 from fees charged to applicants of the legalization program. The FY88 budget also includes $928 million for the Social Security Administration of the Department of Health and Human Services to reimburse states for the cost of providing financial, medical and educational assistance to newly legalized aliens.

## INCOME SECURITY

While outlays for social security are estimated to increase by $12 billion to $217 billion in FY88, several income security programs which benefit the poor, including Aid to Families with Dependent Children (AFDC), Child Support Enforcement, the Low Income Home Energy Assistance Program (LIHEAP), and refugee and entrant assistance all are slated for cuts.

AFDC would be cut by $322 million below the current services level by ending caretaker benefits when the youngest child turns 16, collecting quality control disallowances prospectively from the states, and requiring single minor parents to live with their parents to be eligible for AFDC, and through a series of work and training proposals. Child Support Enforcement would be cut $146 million by reducing federal matching of administrative costs and limiting incentive payments to those states which have higher cost effectiveness ratios.

LIHEAP would be reduced by one-third to $1.2 billion, recognizing the "oil overcharge settlements available to states for these purposes," according to the budget document.

Refugee and entrant assistance would be cut by over one-fourth, from $340 million in FY87 to $253 million in FY88, with these cuts coming primarily from reimbursement to state and local governments for cash and medical assistance, social services and administrative costs.

No cuts are proposed for Supplemental Security Income. The budget proposes changes in unemployment compensation that would transfer to the states authority, financing and responsibility for administration of the state unemployment insurance and employment service systems. The budget does not include any of the Administration's welfare reform proposals.

## PUBLIC SAFETY

The Administration's FY88 budget request for the Department of Justice is $5.6 billion, a seven percent increase over the FY87 level. The largest increases proposed are in the areas of immigration reform and prison expansion, but the budget contains no funds for the five programs, administered by the Office of Justice Programs, which currently provide financial assistance to state and local governments' criminal justice systems: the Juvenile Justice Program ($67.6 million), the State and Local Assistance Program ($44.4 million), the Regional Information Sharing System ($12 million), the Mariel

Cuban grant program ($5 million) and the State and Local drug enforcement grants authorized under the Anti-Drug Abuse Act of 1986 ($225 million). The combined budget request for the National Institute of Justice and the Bureau of Justice Statistics is $42.4 million, eight million dollars over FY87 levels. Funding for other programs of the Office of Justice Programs would remain at current levels: $4 million for the missing and exploited children program; $10 million for the public safety officers' benefits program. $1.2 million is requested for the emergency assistance program. DOJ's FY88 budget request includes $1.5 billion for the Federal Bureau of Investigation, a $181 million increase over FY87. An increase of $32 million, or a total of $522 million, is proposed for the Drug Enforcement Administration.

The FY88 budget request for emergency management planning and assistance activities, administered by the Federal Emergency Management Agency, is $276.8 million, a $15 million increase over FY87 levels.

## TRANSPORTATION

The Administration's proposed FY88 transportation budget, much like those rejected by Congress in the past, calls for large scale reductions in transportation programs vital to cities. The budget provides no general funds for highway and mass transit and at the same time imposes a $600-million-a-year tax on state and local governments to fund the remaining programs. This tax would be in the form of a nine-cent-per-gallon tax on gas. State and local governments are currently exempt from paying the gas tax.

Specifically the president's budget calls for the:

- Elimination of Funding for Mass Transportation - The budget proposes to eliminate funding for mass transit programs from the general fund. In order to accomplish this, the budget would eliminate the development of any new transit systems and fund those already on line at 40 percent of current levels. The source of this 40 percent would be the mass transit account of the trust fund.

- Limitation of Highway Funding to that Amount Generated by the Gas Tax - The budget states that the funds authorized for highway construction exceed the revenues generated by the gas tax, however, the Administration's figures do not include the interest generated annually by the trust fund. They feel these funds are not user fees therefore not attributable to the program.

- Increase in Federal Aviation Administration's Funding - The budget calls for an increase of $437 million for the nation's air traffic control and navigation systems, including 225 additional air traffic controllers.

- Sale of Amtrak - For the third consecutive year the budget proposes to eliminate the federal subsidy to Amtrak. This year, the additional step of selling the railroad has been added. The budgetary result of this, regardless of its likelihood of success, is that one billion new revenue dollars are credited toward deficit reduction.

## VETERANS

The Veterans Administration provides wide-ranging services to the United States' 27.7 million veterans, 48.7 million members of their families, and two million survivors of deceased veterans. Its health care, pension, compensation, education, and housing assistance programs have important impacts on the economies of urban areas and the well-being of many residents of our cities. The Administration's proposed FY88 budget includes an appropriation of $27.6 billion, a two percent increase over FY87 appropriation levels. The budget includes four areas of particular interest to cities: 1) It proposes legislation increasing the loan origination fee charged on VA-guaranteed housing loans from the current one percent to 2.5 percent effective June 1, 1987; estimates indicate that this would increase the average fee from $650 to about $1,625 per mortgage. 2) The budget proposal would rescind $74 million in medical care funds already appropriated in FY87 for the care of "high income" non-service-disabled veterans. However, patients in this group would be able to receive care on a space available basis. 3) The Administration proposes to index compensation benefits--entitlements paid as either a disability benefit or a survivorship benefit--to the annual change in the Consumer Price Index. This cost-of-living increase, which would be effective with payments made in January 1988, is expected to be 3.5 percent for 1987. And, 4) the budget requests a $136 million reduction in funds for readjustment benefits for dependents and Vietnam-era veterans. This reduction is based on an estimated 22 percent decline in the Vietnam-era veterans and dependent caseload.

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TESTIMONY OF

THE HONORABLE WILLIAM J. ALTHAUS

MAYOR, CITY OF YORK, PENNSYLVANIA

On Behalf Of

THE U.S. CONFERENCE OF MAYORS

Before The

SENATE SUBCOMMITTEE ON HOUSING & URBAN AFFAIRS

On

ENACTMENT OF HOUSING AND COMMUNITY DEVELOPMENT ACT

FEBRUARY 17, 1987

Mr. Chairman, Members of the Subcommittee, thank you for this opportunity to testify this morning on the critical issues concerning the reauthorization of housing and community development legislation. My name is William J. Althaus. I am the Mayor of York, PA, and am testifying today on behalf of the U.S. Conference of Mayors, where I serve as Chairman of the Community Development Subcommittee, and a Co-Chair, along with Jerry Abramson, Mayor of Louisville, of a newly created Mayor's Task Force on the Reauthorization of the Community Development Block Grant program.

Before I go into the details of our position on reauthorization of this critically needed legislation, I would first like to provide some context for it in terms of the needs of our nation's cities and the recent history of federal aid to cities to cope with these problems. In this regard, I ask your permission, Mr. Chairman, to submit for the record the Conference of Mayor's recently released annual report on the federal budget, entitled The Federal Budget and the Cities.

Our anaylsis of the President's budget for 1988 shows a continued erosion in the federal/city partnership for community and economic development and the maintenance of basic infrastructure, so important for the successful economic development of our communities and for the provision of adequate services to our citizens. Furthermore, the federal tax legislation of last year has placed severe limitations on the issuance of municipal bonds for economic development projects which are so important to our communities for creation of jobs and increasing our tax bases. Over a period of ten years, eight critically important federal programs of aid to cities (Community Development Block Grants, Urban Development Action Grants, General Revenue Sharing, Urban Mass Transit, Employment & Training, Economic Development Administration, Law Enforcement Assistance and Clean Water Construction Grants) have decreaced by 67% (88% adjusted for inflation). At the same time, Assisted Housing has decreased from 338,000 to 102,000 assisted households, for a decrease of 70%.

Proposed reductions in the President's budget for FY-88 in twenty-three selected federal-urban programs totaled $21.68 billion from FY-87 levels, and this figure does not reflect our loss last year of the very successful and needed General Revenue Sharing program. While I support the President in his fight to bring our national defense expenditures back to necessary levels,

Mr. Chairman, it has become increasingly clear to me that the cities of our nation must also be strong, a need not unrelated to our national defense. To remain strong, our cities simply cannot continue to sustain major cuts in federal aid as we have in recent years.

Within this context of decreasing federal aid to cities, let me turn our focus to the legislation of specific interest to us here today, the reauthorization of housing and community development programs. In that regard, the U.S. Conference of Mayors welcomes this committee's bill, which will address the nation's urgent need for a national housing policy. Assisted housing programs have now gone over a year without authorization, and Community Devlepment Block Grant and Urban Development Action Grant programs expired in the fall of last year.

This committee's bill of last year, S-2507, is generally supported by U.S. Conference of Mayors' policy. As recently as one month ago, our Standing Committee on Housing and Community Development met at our Annual Mid-Winter meeting and reconfirmed this policy. Specifically, the Conference strongly supports at present or increased levels Community Development Block Grants, Urban Development Block Grants, Assisted Housing Programs, Section 312 housing Rehabilitation Loans, Housing Development Action Grants, and Rental Rehabilitation Grants.

The Community Development Action Grant program has in my opinion been one of the most successful federal aid programs to local government. It has been so because of its design as a targeted block grant which, on the one hand, insures that national goals of providing services and facilities for the low and moderate income and providing for the elimination of blight and deterioriation in our nations cities are adhered to. On the other hand, it allows necessary flexibility for individual municipalities to design and tailor programs which meet the specific needs of the city and its target populations.

We feel strongly that the Community Development Block Grant program has gotten a bum rap, so to speak, from some in the media and others who consider CDBG as just another pork-barrel give-away program. I think our CDBG program in the City of York is illustrative of just how removed from reality such charges are. We are a small city, of just under 50,000 population. When we began the CDBG program in 1975, York was a city in an incredible slide downward. Our population was decreasing significantly as taxpayers moved to the suburbs or other areas of the country, away from a city which was

characterized by a deteriorated downtown commerical area, high unemployment and a lack of services to our increasing low-income elderly and minority population.

But over this ten year period, the City of York has turned the corner and is on the way back, to a great extent due to the Community Development Block Grant and related programs. About $25 million of investment has been made in our downtown area which is directly attributable to our community development program of infrastructure improvements. The combination of our CDBG funds with a state-funded enterprise zone program has generated another $9 million in investment and created 600 new jobs in a deteriorated industrial tract near the center of our city.

In housing, over 600 low and moderate income families have been recipients of low-interest loans to improve their dwellings and decrease energy costs. This rehabilitation program was especially important to the redevelopment of a hurricane-devastated area of the city. At first, the program heavily utilized Section 312 Housing Rehabilitation loans, but increasingly and now almost exclusively has used CDBG funds, as Section 312 funding availability has been cut back.

But not all of our CDBG program has been used for brick and mortar. A large part of it is targeted to community and social services in support of our low income and minority neighborhoods. We provide this assistance through subgrants to neighborhood organizations such as Crispus Attucks, which services a primarily black community, and the York Spanish American Center, which serves our growing poor Hispanic population, many of whom need basic language skills and other orientation to effectively compete for jobs.

For those who presume that CDBG is not well-targeted, I believe that a break-down of our program budget will put that notion to rest, and based on my knowledge of programs in many other communities, I know that our program is typical of many others. Of our annual $1.5 million budget last year, 50% of that amount was spent on our program of loans to low and moderate income homeowners for rehabilitation of their homes; almost 20% was spent on subgrants to neighborhood and service organizations such as Crispus Attucks for the provision of community and social services to low-income families; 1.7% was spent on acquisition and demolition of deteriorated land and buildings; and 7.7% on city public works.

I might add that much of the public works budget was spent on projects in designated community development areas such as our York Pride Block program, where we make improvements in streets, curbs and sidewalks in cooperation with the local residents who are taking advantage of our loan programs to improved their homes.

The Community Development Block Grant program is a success story of great magnitude as an effective program for meeting the needs of our cities, and especially the less fortunate of our citizens. The U.S. Conference of Mayors supports a three year reauthorization of the CDBG program at a level of at least $3.4 billion.

We are aware of the administration's plans to introduce legislation that would target the funds of the CDBG program to more needy communities. We believe, however, that the CDBG program now works well, and any such plan to further target the funds is apt to prove counterproductive to the program.

Another related program which has also achieved a great deal of success is the Urban Development Action Grant program. Although the Secretary of Housing and Urban Development has himself pointed to the success this program has achieved in the generation of jobs and tax base in otherwise blighted urban areas, the President's budget called for the rescission of remaining FY-87 funds and did not include the program in the FY-88 budget. We urge the Congress to reauthorize the program at the present level of $300 million. This level represents a program already considerably smaller than only two years ago, when it was funded at $440 million. We also support the formula change for selection of UDAG applications which was included in last year's legislation, S. 2507. These changes will allow for projects to be selected on the basis of project quality as well as impaction, resulting we believe in a selection of UDAG projects on a fair and rational basis.

On other related programs, the U.S. Conference of Mayors supports the continuation of the Housing Development Action Grant program at $99.5 million; and the Housing Rehabilitation Grant program at $200 million.

Assisted housing has sustained some of the most severe cuts of any federal aid programs. The administration has submitted an FY-88 budget to Congress which would further erode federal support. The request emphasizes housing vouchers as the "cornerstone" of its housing policy, by including 79,000 vouchers for urban areas, and an additional 20,000 for rural areas. The request also includes 3,000 new housing construction units

for Indians, elderly and handicapped, for a total of 102,000 household subsidies for FY-88.

Assisted housing for low and moderate income families under the Section 8 program, the cornerstone of housing policy in the 1970's, rapidly became too expensive as a means to provide large scale rental subsidies to the nation's low and moderate income families. This has been increasingly apparent in this time of high federal budget deficits. As a result, the adminstration has eliminated new construction and substantial rehabilitation under Section 8, and severly curtailed available Moderate Rehabiliation subsidies. These forms of subsidy had been replaced by the Section 8 Existing certificates, and now, Housing Vouchers, which can be an efficient vehicle for providing subsidies at reasonable cost.

Unfortunately, housing vouchers do not provide for housing contruction, and are of real value only in localites where an adequate number of vacant units are available which are up to housing standards. So we are now left with what amounts to only a portion of a national program for assisted housing, with a large part of the policy missing--that which would provide for the construction of new units where needed.

Other housing programs are also not receiving the support needed, and in some cases attempts are being made to withdraw support already agreed upon. For example, the administration has proposed that $436.9 million in public housing modernization funds and $85.3 million of public housing operating subsidies enacted in FY-87 be shifted to FY-88. The budget also proposes to shift 2,000 units of Section 202 housing for the elderly and the handicapped. The U.S. Conference of Mayors urges Congress to refuse the request to shift these funds.

We are particularly concerned about the loss of existing federally subsidized housing stock. The General Accounting Office has estimated that by 1995, losses of privately-owned housing stock could reach 200,000 to 900,000 units due to expiring rental subsidies and prepayment of mortgages. If so, the cost for replacing these units could cost as much as $130 billion, according to the National Association of Home Builders.

The need for adequate housing for our low-income families and elderly cannot be overstated. In my own community, the York County Housing Authority reports that it presently administers a program of approximately 1,000 Section 8 rental subsidy units, with an additional 1,200 units of public housing. The Authority has a waiting list

of 710 families for Section 8 units, and has closed the list for additional families. A list of 605 families is waiting for public housing. The waiting period for those who made the list is from two to four years. This backlog of families waiting for assisted housing in York is indicative of a nation-wide problem, one which is far more acute in other cities.

In a recent survey of twenty-five cities, the U.S. Conference of Mayors asked participating jurisdictions to evaluate the demand, capacity and outlook for assisted housing. The results are of great concern to our organization and I trust will be so to you. Eighty percent of the cities had experienced an increase in demand for assisted housing, by an average of forty percent, during 1986. The average wait for assistance in the surveyed cities for assisted units was 18 months.

Sixty-eight percent of the respondents had closed their waiting lists for assisted housing because of their length, and most telling of our assisted housing problem, only one-third of the eligible low-income households are being served in these survey cities. Fifty-four percent of the cities had a decrease in the affordable rental housing stock over the last five years. And finally, all 25 of the surveyed cities said that local housing programs will be unable to meet local housing needs, given the decline in federally assisted housing programs.

Mr. Chairman, the lack of affordable housing for our low and moderate income families in this country is a national problem of immense proportions, and frighteningly, it is not a static situation nor does it grow smaller. It is, to the contrary, growing even larger. It does not track with the overall economic well being of this nation, so we cannot simply hope that with a growing economy the problem will somehow take care of itself. We simply must have a national housing policy with the active participation of the federal government in partnership with our state and city goverments to over come this critical problem.

The U.S. Conference of Mayors looks forward to working with you, Mr. Chairman, and the members of your Subcommittee in writing legislation which will continue these important programs in housing and community development, and move us closer to a just, workable and affordable national housing policy. Thank you for this opportunity to share our views with you this morning.

# A TIME TO BUILD UP:
## A Survey of Cities About Housing Policy

By

William R. Barnes
Research Director
National League of Cities

February 1987

A Research Report
of the National League of Cities Institute

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## PREFACE

We are pleased to present A Time To Build Up: A Survey of Cities About Housing Policy to NLC's membership and to the public. This is a timely report on a topic of great importance to the nation's cities: the programs and policies needed to address the housing problems of low-income households.

The report is based on a survey of cities, undertaken by NLC in 1986. The survey was requested by NLC's Committee on Community and Economic Development as an aid to policy development. The Chairman of the Committee in 1985 and 1986 was Mayor James E. Roark of Charleston, West Virginia.

The author of the report and director of the survey project is William R. Barnes, Research Director for NLC.

The 444 cities that responded to the survey are quite clear about the need for a continuing Federal role in housing policy. The survey also reveals some clear evaluations of Federal programs and priorities for emphasis in Federal policy.

We believe these and other findings in the report can be useful contributions to the debate over housing authorizations in the Congress during 1987. We invite comments and questions about this study. We hope that it will help in the effort to clarify our nation's housing needs and to address those needs with adequate policies.

Alan Beals
Executive Director

William E. Davis, III
Director, Office of Policy
Analysis and Development

## AUTHOR'S ACKNOWLEDGEMENTS

I want to acknowledge and thank others who contributed to this project. First, officials and staff in 444 cities filled out the detailed questionnaire and returned it. Dr. Phillip Clay, of MIT, collaborated on the design of the survey and the initial data input; he will conduct his own analysis of the survey data for another study. Graduate research assistants David Aiken and Eva Orlebeke completed a variety of crucial tasks along the way. Hillel Sukenik provided help with the data input and analysis. Raymond Struyk and Barry Zigas read and commented on a draft of the report. Deborah Johnson typed the manuscript and managed it through numerous revisions.

William R. Barnes

# A TIME TO BUILD UP

## A Survey of Cities About Housing Policy

by

William R. Barnes

National League of Cities

February 1987

## EXECUTIVE SUMMARY

In 1986, 444 cities responded to an NLC survey about housing problems and policies. These responses can be summarized under the headings of four questions, as follows.

**(1) Which groups of people face severe housing problems?**

A majority of cities report that homeless persons (58.0 percent of cities) and low income renters (53.4 percent) face "severe" problems locally.

**(2) What would happen if all Federal housing assistance programs were terminated?**

The big losers would be low income renters. Three out of four cities (76.1 percent) say that, if all Federal housing programs disappear, low income renters will be the group most in need of assistance.

Other groups that would be most in need of help if Federal aid ends are the elderly (in 47.3 percent of cities), female-headed households (40.3 percent), families with three or more children (39.0 percent), and the homeless (22.5 percent).

Nearly all cities (95 percent or more) predict that, if Federal housing aid were to end completely, neither their municipality nor any other source will replace half or more of the funds needed to provide assistance to poor people.

**(3) Are Federal low-income housing programs cost-effective?**

All 21 programs assessed in the survey are regarded by majorities of cities as at least "moderately cost-effective" or better. Majorities of the cities that have a basis for judgment say that seven programs are "highly cost-effective":

| | |
|---|---|
| Community Development Block Grant | 84.7% |
| Section 8, Existing Housing | 69.3% |
| Urban Development Action Grant | 62.1% |
| Rental Rehabilitation Grants | 61.2% |
| Public Housing Modernization | 58.6% |
| Public Housing Operating Subsidy | 55.7% |
| Section 202 (Elderly and Handicapped) | 55.5% |

From that same list of 21 Federal programs, each city respondent was asked to rank the three "most cost-effective" programs. These aggregated rankings manifest two patterns of results:

- First, two programs are seen as the "most cost-effective" by substantial percentages of cities. This reflects the flexibility and/or broad relevance of these two programs. The two programs that were rated the "most cost-effective" by the highest percentages of cities are the Community Development Block Grant (73.0 percent) and Section 8 Certificates for Existing Housing (47.1 percent). (In contrast, 5.0 percent of cities say that Housing Vouchers are among the "most cost-effective" programs.)

  The next programs in the "most cost-effective" list are Rental Rehabilitation Grants (27.9 percent of cities) and Operating and/or Modernizing Public Housing units (23.7 percent).

- Second, cities spread a majority of their votes for the three "most cost-effective" programs broadly among programs other than CDBG and Section 8 Existing. This reflects the variety of local housing markets and circumstances: different programs are "most cost-effective" in different situations.

**(4) What types of housing assistance should be emphasized in Federal policy?**

The survey asked city officials to imagine that Federal housing assistance policies were to be completely revised and adequately funded. Putting aside programmatic details, what three types of housing activities should be the top priorities for emphasis in Federal housing policy? The activities that received these top priority votes from the highest percentages of cities are:

| | |
|---|---|
| Rental assistance (money payments) | 60.8% |
| Rehabilitation of single-family houses | 52.9% |
| Rehabilitation of multi-family units (privately owned) | 43.2% |
| Construction of new multi-family units | 27.7% |
| Construction of new public housing units | 20.7% |

**These findings lead to several conclusions regarding city officials' views about future Federal housing policy.**

- Adequate Federal housing assistance, targeted to low- and moderate-income households, must be continued if the housing needs of these households are to be addressed.

- Existing programs are cost-effective and should be retained (until and unless appropriate and adequately-funded replacements are in place).

- Federal housing policy (1) should put special emphasis on direct rental assistance to poor people and on rehabilitation programs; and (2) should also reflect the variety of other local circumstances and needs---especially new multi-family construction, both publicly and privately owned---through a broad array of categorical programs and/or a housing block grant.

- Federal housing policy should not be reduced to any single dimension (e.g., housing vouchers).

# CHAPTER I

## INTRODUCTION

For Federal housing assistance programs, the years since 1980 have been a time to scale down. Budget authority for additional units has been cut drastically; the mix of the types of housing assistance provided has changed dramatically. In the near future, the expiration of housing assistance that was authorized in the 1970s raises the possibility that not only will Federal housing assistance not grow, but it will suffer absolute declines in the number of households assisted.

These trends in Federal housing policy do not reflect a consensus. They are the outcome of vigorous disagreement and intense struggle among the decision-makers in the Congress and the Administration and among interest groups. Federal housing policy has been, and continues to be, in considerable disarray. For example, since 1980, there has been only one authorization of Federal housing programs. Instead, programs continue year to year in appropriation bills. There has also been continuous strife over vital details of program operation and these arguments persist. Meanwhile, housing problems of low-income households remain.

In this situation, the National League of Cities decided to ask city officials for their views on various aspects of housing policy. NLC mailed a questionnaire to cities in the spring of 1986 and 444 cities responded.

These 444 cities say that Federal housing aid is crucial, that no other source will replace disappearing Federal assistance. It is not, in the view of these city officials, a time to tear down Federal programs; it is time to build them up. These officials also have clear views on the priorities that should be emphasized in a revitalized Federal housing policy.

The chapters that follow address four broad aspects of housing policy:

(1) Housing problems faced by various groups in cities;

(2) The ability of Federal programs to provide cost-effective solutions;

(3) Activities which local officials prescribe to address these problems; and

(4) Priorities for emphasis in Federal housing policy.

Each of these topics corresponds to a chapter in the body of the report.

Chapter II commences the analysis with a look at the severity of the housing situation for various groups of people in cities. Also included is a discussion of which of these groups would be most seriously affected if all Federal housing assistance were to disappear. Harking back to the U. S. Housing Act of 1949, this chapter tries to delineate those groups for whom the promise of "a decent home and a suitable living environment for every American family" remains unfulfilled and for whom declining Federal aid threatens to further reduce the likelihood of its fulfillment.

In the third chapter of the report, the topic is the evaluation of current Federal housing programs: which programs are most "cost-effective" in meeting housing needs in cities?

Chapter IV examines city officials' assessments of the relative importance of a series of housing-related activities in meeting housing needs. These activities are not specific programs, but rather types of programs (e.g. "construction of new multi-family units" or "weatherization").

In Chapter V, the discussion moves to Federal policy again, this time focusing on the activities which would be important to emphasize if Federal housing assistance were completely revised and adequately funded.

The emphasis in these chapters is on straightforward reporting of cities' answers to the survey questions. Descriptions of the 444 responding cities, the sample selection, and the total response frequencies to questions on the survey are provided in the Appendices.

## CHAPTER II

## PEOPLE WHO FACE HOUSING PROBLEMS

The survey asked respondents to think about the difficulty that each of various groups of people face in finding decent and affordable housing. Then, from among these groups, respondents selected the three groups in their particular city that would be most in need of assistance in the absence of Federal aid. This chapter reports the answers that the 444 responding cities gave to these questions.

### 1) Assessments of Groups' Housing Problems

The survey presented a list of twelve groups and asked respondents to assess the housing problems experienced by each as "severe," "moderate," or "few". (The groups are not mutually exclusive segments of a city's population; these are overlapping categories.) Table II-1 shows the percentages of cities which gave each assessment to each group.

In this table and other similar tables throughout the report, a fourth column is included on the far right, showing the number of responses to this particular question. It is this number which is the basis for calculations of percentages in each row. In the category of recent immigrants, for example, only 299 cities chose to provide an assessment; the remainder either left the question blank or said that it was "not applicable" to their city. The table indicates 33.1 percent of cities view immigrant's problems as

"severe"; this is not 33.1 percent of all of the 444 cities in the survey, but rather 33.1 percent of the 299 cities which offered an opinion on this group.

TABLE II-1

SEVERITY OF PROBLEMS FOR VARIOUS GROUPS

| Group | Severe | Moderate | Few | Number of Respondents (= 100%) |
|---|---|---|---|---|
| Homeless | 58.0% | 31.2% | 10.8% | 388 |
| Low-Income Renters | 53.4 | 40.5 | 6.1 | 440 |
| Low-Income Homeowners | 39.6 | 51.0 | 9.4 | 437 |
| Families with 3 or More Children | 39.1 | 47.1 | 13.8 | 435 |
| Female-headed Households | 36.3 | 50.2 | 13.5 | 438 |
| Recent Immigrants | 33.1 | 43.8 | 23.1 | 299 |
| Handicapped Persons | 22.6 | 57.3 | 20.0 | 424 |
| Elderly | 21.1 | 59.0 | 19.9 | 437 |
| Blacks | 16.3 | 49.6 | 34.1 | 405 |
| Hispanics | 12.7 | 52.3 | 35.0 | 346 |
| Young Couples | 7.2 | 45.8 | 47.0 | 432 |
| Single Persons | 5.0 | 34.3 | 60.8 | 423 |

The table manifests some fairly clear results: two groups' housing problems were rated "severe" by a majority of cities. Fifty-eight percent of cities that rated the problems of the homeless called these problems "severe." Fifty-three percent of those who rated low-income renters labelled that group's problems "severe."

Between 30 and 40 percent of cities said that a second cluster of groups--low-income homeowners, families with three or more children, female headed households, and recent immigrants--face "severe" problems with housing.

Many of the groups which cities did not place in the "severe" category were rated as having "moderate" problems. In fact, all groups--with the notable exceptions of young couples and single persons--were designated as having at least "moderate" problems by more than 75 percent of cities.

Young couples and single persons stand out as those groups which cities considered to have "few" problems. Forty-seven percent placed young couples in this category, and 60.8 percent did so for single persons. In addition, fewer than 10 percent of cities indicated "severe" problems for either group.

It is important to note that the highest percentages of cities gave "severe" ratings to categories that pertain to income and to housing tenure type (no house, renter, owner). The remaining categories pertain to characteristics of the person or the household. City officials tend to associate serious housing problems with the household's status in the housing market rather than with the demographic characteristics of the people.

2) Severe Problems by Region and City Size

Using the "severe" ratings from Table II-1 as indicators of major housing problems, the analysis in this section disaggregates those ratings by geographical location and by city size.

Table II-2 shows the frequency of "severe" responses for each group among the four Census regions. (See Table 3 in Appendix A for a list of which states are in which regions.)

**TABLE II-2**

**SEVERE PROBLEMS--BY REGION**

| Group | North East | South | North Central | West |
|---|---|---|---|---|
| Homeless | 60.8% | 56.7% | 49.4% | 64.4% |
| Low-Income Renters | 67.5 | 52.1 | 46.2 | 51.4 |
| Low-Income Homeowners | 43.9 | 43.6 | 34.3 | 36.4 |
| Families with 3 or More Children | 59.5 | 33.6 | 31.1 | 38.0 |
| Female-headed Households | 47.0 | 35.2 | 28.8 | 36.7 |
| Recent Immigrants | 39.4 | 36.3 | 15.9 | 37.8 |
| Handicapped Persons | 31.3 | 20.3 | 19.2 | 22.4 |
| Elderly | 28.9 | 17.9 | 12.5 | 27.3 |
| Blacks | 23.0 | 20.3 | 12.5 | 9.8 |
| Hispanics | 25.4 | 10.3 | 8.3 | 9.6 |
| Young Couples | 13.1 | 5.0 | 4.0 | 8.3 |
| Single Persons | 8.4 | 5.8 | 4.0 | 1.9 |

For all groups (except the homeless), cities in the Northeast are more likely than cities elsewhere to consider problems to be "severe." North Central cities, on the other hand, are less likely to label problems "severe" for almost all groups.

In terms of the order of groups in the ranking, however, there are few dramatic differences among the regional assessments of severe problems. In all four regions, first, the homeless, and second, low-income renters, were most frequently thought to experience "severe" problems. For both of these groups, 46 percent or more of respondents in each region rated their problems "severe."

Somewhat more variation in regional emphasis occurs within the subsequent cluster consisting of low-income homeowners, large families, female-headed households, and recent immigrants. Nearly 60 percent of Northeast cities said large families had severe problems while 38 percent or fewer respondents made the same assessment in each of the other regions. Only 15.9 percent of North Central cities said immigrant problems were severe, but the comparable figure is more than double in the other three regions.

For a subset of the groups, it is interesting to take a look at these kinds of differences, not only among regions but also among the nine Census divisions. Table II-3 compares the percentages of "severe" responses for low-income renters, large families, female-headed households, and recent immigrants. (See Table 3 in Appendix A for a list of which states are in which Census division.)

## TABLE II-3

## SELECTED SEVERE PROBLEMS, BY DIVISION

| Division | Low Income Renters | Large Families | Famale-headed Households | Recent Immigrants |
|---|---|---|---|---|
| New England | 74.3% | 71.4% | 71.4% | 48.0% |
| Mid Atlantic | 62.5 | 51.0 | 29.2 | 34.1 |
| E. No. Central | 48.6 | 31.9 | 27.8 | 16.7 |
| W. No. Central | 40.6 | 29.0 | 31.3 | 19.0 |
| So. Atlantic | 60.6 | 44.6 | 40.9 | 39.4 |
| E. So. Central | 38.5 | 16.0 | 34.6 | 9.1 |
| W. So. Central | 49.0 | 26.5 | 28.6 | 40.0 |
| Mountain | 28.1 | 32.3 | 22.6 | 24.0 |
| Pacific | 60.0 | 41.0 | 41.8 | 42.4 |
| Total | 53.4 | 39.1 | 36.3 | 33.1 |

The two divisions in the Northeast still show the highest numbers, with New England showing figures of over 70 percent for three of these groups.

The table suggests a general pattern of more severe problems for these groups in cities in the New England, Mid Atlantic, South Atlantic, and Pacific divisions. In these four areas, at least 60 percent of responding cities thought low-income renters had severe problems, while the remaining five divisions showed figures of less than 50 percent. Similarly, for large families, these four divisions had a minimum of 41 percent "severe" responses, and the other five had a maximum of 32.3 percent. Although the Mid-Atlantic shows an especially low figure (29.2%) for female-headed households facing "severe" problems, New England, the Pacific, and the South Atlantic remain the highest in this category.

In addition, the last column of the table clarifies the composition of the 33.1 percent of the respondents calling recent immigrants' problems "severe." The highest percentages of respondents are from cities in the New England, Mid-Atlantic, South Atlantic, West South Central, and Pacific divisions. Most of these areas contain significant sections of border or coastline. In the West, South Central division, which includes Texas, more cities said problems were severe for recent immigrants than for female-headed households or large families.

Table II-4 presents the percentages of cities that indicated "severe" problems for groups, separated according to population size of the cities.

In every case but one (young couples), a greater percentage of large cities indicated "severe" problems for each group than did small cities. However, certain problems--those of the homeless and low-income renters-- are most frequently designated "severe" by all cities, regardless of their size. In fact, the descending order of "severe" problems is roughly the same in all three size groups.

Generally, the figures for the medium-sized city respondents are roughly 5-10 percent lower than those for large cities, and the figures for small cities are again 5-10 percent lower than the medium-sized cities. Unlike the larger cities, medium and small cities more frequently rated the problems of low-income renters, large families, recent immigrants, and others as "moderate" rather than "severe".

One additional point to note is the relatively high number of large cities, nearly 40 percent, which thought that the handicapped confront severe problems finding adequate housing. By contrast, only 22.5 percent in medium-sized cities and 17.6 percent in small cities made this same judgment.

## TABLE II-4

## SEVERE PROBLEMS--BY POPULATION

| Group | Small (Less than 50,000) | Medium (50,000-200,000 | Large (Over 200,000) |
|---|---|---|---|
| Homeless | 47.7% | 62.9% | 64.2% |
| Low-Income Renters | 44.9 | 55.5 | 69.8 |
| Low-Income Homeowners | 39.1 | 38.4 | 46.2 |
| Families with 3 or More Children | 28.6 | 43.4 | 50.9 |
| Female-Headed Households | 30.1 | 38.0 | 47.2 |
| Recent Immigrants | 24.0 | 35.4 | 45.2 |
| Handicapped Persons | 17.6 | 22.5 | 38.8 |
| Elderly | 16.8 | 22.7 | 26.4 |
| Blacks | 11.7 | 17.9 | 22.9 |
| Hispanics | 8.1 | 13.0 | 26.3 |
| Young Couples | 7.0 | 8.0 | 3.9 |
| Single Persons | 3.3 | 3.2 | 17.6 |

Focusing on the small cities in the survey, we can divide this group into the 105 cities entitled to CDBG funding and the 54 which are not entitled. Few major differences emerge and these are displayed in Table II-5.

TABLE II-5

SEVERE PROBLEMS--ENTITLEMENT VS. NON-ENTITLEMENT SMALL CITIES

| Groups | Entitlement | Non-entitlement |
|---|---|---|
| Homeless | 43.7% | 55.8% |
| Low-Income Renters | 40.4 | 53.7 |
| Low-Income Homeowners | 36.9 | 43.4 |
| Female-Headed Households | 32.7 | 25.0 |
| Families with 3 or More Children | 31.1 | 23.5 |

The nonentitlement communities indicate severe problems for the first three groups--homeless, low-income renters, and low-income homeowners--with somewhat greater frequency than the entitlements. The case is reversed in assessments of the problems of female-headed households and large families.

In general, however, the order of the rankings are the same for both sets of cities and the magnitudes of the percentages are roughly similar. The severity of housing problems, as perceived by small city officials, is about the same regardless of whether the city does or does not have CDBG entitlement status.

When data from large cities are compared with additional data from urban counties, the evaluations of problems in the two types of jurisdictions (both with populations over 200,000) look similar.

For almost every group, the percentage of urban counties which calls its problems "severe" is slightly higher than the corresponding percentage of large cities. Table II-6 presents these comparisons for the five groups which were labelled "severe" by more than 50 percent of either the cities or counties. The percentages are based upon responses from the 53 large cities and the 47 urban counties that returned questionnaires.

TABLE II-6

SEVERE PROBLEMS--LARGE CITIES VS. URBAN COUNTIES

| Groups | Large Cities | Urban Counties |
|---|---|---|
| Low-Income Renters | 69.8% | 72.3% |
| Homeless | 64.2 | 69.6 |
| Families with 3 or More Children | 50.9 | 57.8 |
| Female-Headed Households | 47.2 | 68.1 |
| Low-Income Homeowners | 46.2 | 51.1 |

With the exception of a 20 point difference between 47.2 percent of large cities and 68.1 percent of counties that call problems "severe" for female-headed households, the large cities and urban counties have made roughly similar assessments of the problems these groups face.

### 3) A Note on the Data

The assessments of problems presented in the above tables and in the rest of this chapter reflect the judgments of knowledgeable city officials. These are perceptual data, not "hard" descriptions of conditions (although the respondents are probably acquainted with such information about their cities). These perceptions are very important because they are offered by decision-makers and, thus, most likely have a degree of influence on policy. The respondents also are in a position to provide insights about actual local conditions beyond the gloss of statistics.

On the other hand, variations within the data presented here may also reflect differences in the propensity to see problems as "severe", as well as differences in the nature of those problems. Overall, 72.3 percent of the 444 responding cities reported that four or less of the groups have "severe" problems; 27.7 percent of the cities said that five or more groups have "severe" problems. Focusing on the latter figure, Table II-7 shows the extent to which regional and population size groupings of respondents vary from this national average.

Among the regions, 36.9 percent of Northeast cities reported that five or more groups have "severe" problems. This figure is 9.2 percentage points above the national average of 27.7. At the other extreme, North Central cities are 9.6 percentage points below the average. Northeast cities, then, are much more likely to report many (five or more) "severe" problems than are North Central cities.

Among population size groupings, large cities (17.5 percentage points above the average) are much more likely than medium-sized cities (3.3 percentages above the average) and small cities (10.7 points below the average) to report many "severe" problems.

Do these differences reflect variations in housing problems or do they reflect variation in peoples' standards of evaluation? Or, what mixture of these two bases of variation do the data reflect? The short answer is that we do not know. Another answer is that some variation in standards of evaluation seems likely and the reader should be careful not to put too much emphasis on relatively

small (say, less than 10 percent) differences among groups of cities. The most interesting answer, however, is that standards are a crucial element in determining the nature of problems and that, therefore, these informed perceptions are very strong indicators of local housing realities. The analyses here take into account the former caveats, but are mainly rooted in this latter view.

TABLE II-7

PERCENTAGES OF
CITIES THAT REPORT 5 OR MORE
"SEVERE" HOUSING PROBLEMS

| | Percent of Cities | Number of Percentage Points Difference from National Average |
|---|---|---|
| National | 27.7% | 0 |
| Northeast | 36.9 | + 9.2 |
| West | 31.2 | + 3.5 |
| South | 26.6 | - 1.1 |
| North Central | 18.1 | - 9.6 |
| Small | 17.0 | -10.7 |
| Medium | 31.0 | + 3.3 |
| Large | 45.2 | +17.5 |

4) What Would Happen to These Groups if Federal Aid Disappeared?

The survey asked city officials to imagine a scenario in which all Federal housing assistance has disappeared. Table II-8 shows the frequency with which each group was indicated as a city's first, second, or third neediest in this hypothetical situation of no Federal housing aid.

The group that would suffer most from the disappearance of Federal aid is clearly low-income renters. Seventy-six percent of the cities indicated this group among their top three choices, and 40 percent made it their first choice.

### TABLE II-8

### NEEDIEST GROUPS IF FEDERAL AID ENDS

| Group | 1st, 2nd or 3rd Choice |
|---|---|
| Low-Income Renters | 76.1% of Cities |
| Elderly | 47.3 |
| Female-Headed Households | 40.3 |
| Families with 3 or more Children | 39.0 |
| Low-Income Homeowners | 35.1 |
| Homeless | 22.5 |
| Handicapped | 8.8 |
| Blacks | 6.8 |
| Young Couples | 4.7 |
| Recent Immigrants | 3.8 |
| Hispanics | 3.2 |
| Single Persons | 2.3 |
| Other | 2.7 |
| No Response | 7.5 |

After low-income renters (76.1%), the elderly (47.3%), and large families (39.0%), female-headed households (40.3%), and low-income owners (35.1%) are most frequently mentioned. The homeless are mentioned by 22.5 percent of respondents, and the other groups are mentioned by fewer than 10 percent.

These responses involved several different judgments by city officials who answered. First, what is the relative degree of housing need among the groups? This is similar to the views expressed in the data in Table II-1, but here the groups' needs are being ranked whereas, in the previous question, each group's needs were assessed independently. Second, to what extent are these groups now aided by Federal programs such that loss of the programs would affect the group directly?

The effect of this second judgment is most clearly seen in the reversal of the place in the rankings given to the elderly and the homeless in Table II-8 compared to Table II-1. The elderly are now aided by Federal programs in many cities and, thus, the loss of such programs would increase the housing problems the elderly face. Federal programs apparently are seen as benefitting homeless persons in fewer cities and, thus the loss of aid would affect them less. This results in the lower place given them in Table II-8.

## TABLE II-9

## NEEDIEST GROUPS IF FEDERAL AID ENDS--BY REGION

| | North East | South | North Central | West |
|---|---|---|---|---|
| Low-Income Renters | 77.4% | 78.3% | 75.2% | 73.2% |
| Elderly | 38.1 | 44.1 | 49.5 | 56.3 |
| Female-Headed Households | 29.8 | 39.9 | 44.8 | 44.6 |
| Families with 3 or More Children | 52.4 | 37.1 | 39.0 | 31.3 |
| Low-Income Homeowners | 29.8 | 40.6 | 37.1 | 30.4 |
| Homeless | 22.6 | 21.0 | 21.9 | 25.0 |

In every region, over 70 percent of cities indicated that low-income renters would be most in need if Federal aid ends. (See Table II-9.) Some variation in emphasis did occur, however, regarding the other groups. The elderly were most frequently a choice in the West (56.3%) and least often in the Northeast (38.1%). The Northeast cities were more likely than cities in other regions to select large families (52.4%) and less likely to select female-headed households (29.8%). In all four regions, the homeless were selected as most needy by only 20-25 percent of the cities.

Table II-10 presents a breakdown of the data in Table II-8 by population size. All three size groups agree (with percentages greater than 70 percent) that low-income renters would suffer most if Federal aid were terminated.

## TABLE II-10

## NEEDIEST GROUPS IF FEDERAL AID ENDS--BY POPULATION

| | Small | Medium | Large |
|---|---|---|---|
| Low-Income Renters | 74.2 | 76.7 | 79.2 |
| Elderly | 49.1 | 49.1 | 34.0 |
| Female-Headed Households | 37.7 | 40.9 | 45.3 |
| Families with 3 or More Children | 38.4 | 38.4 | 43.4 |
| Low-Income Homeowners | 43.4 | 31.0 | 28.3 |
| Homeless | 17.6 | 23.7 | 32.1 |

Small and medium-sized cities follow similar patterns, with the exception of a relatively greater emphasis on low-income homeowners in the small cities (43.4%). The large cities tended to choose both female headed households (45.3%) and families with three or more children (43.4%) more frequently than the elderly (34.0%).

## CHAPTER III

## ASSESSMENTS OF FEDERAL HOUSING PROGRAMS

This chapter reports on the findings from survey questions that asked city officials about 1) their capacity to replace Federal funds for housing assistance, 2) how they rate 21 specific Federal housing programs as to "cost-effectiveness" and 3) which of these 21 Federal housing programs are the "most cost-effective". Breakdowns of these data by region and population size are presented, as appropriate.

City officials say that, as Federal housing aid declines, neither their city nor any other source will replace the lost funds for housing assistance to poor people.

Regarding Federal housing programs, cities that have some experience with them tend to rate them as cost-effective. Of 21 specific Federal programs that are evaluated in the survey, from 85 percent to 23 percent of cities that have a basis for judgment about each program say that it is "highly cost-effective". The greatest percentages of cities rated the Community Development Block Grant Program (84.7 percent) and the Section 8 Existing Housing Certificates (69.3 percent) as "highly cost-effective".

When asked to name the three "most cost-effective" Federal housing aid programs, by far the greatest proportions of cities include CDBG (73.0 percent) and Section 8 Existing Certificates (47.1) among their three choices. No other program received votes from more than 30 percent of the cities. The wide scattering of cities' votes for this third "most cost-effective program" clearly

suggests that the effectiveness of programs is related to their appropriateness in given situations and that a variety of Federal aid programs is necessary to deal with the variety of housing situations in different cities.

### 1. Would other funds be found if Federal housing assistance were terminated?

In two separate ways, the survey asked city officials to indicate whether, in the absence of Federal aid, funds would be found to provide needed housing assistance. The question was asked first with regard to meeting the needs of groups that would be most in need of assistance if Federal aid disappeared and second, with regard to replacement of funds for programs that the city rates as most cost-effective.

As reported in Chapter II, the survey asked which three groups of people would be most in need of assistance if all Federal aid programs were terminated. Following that question, we asked whether, without Federal aid, the city could provide half or more of the assistance that these groups would need over the next five years. Four percent or less of the cities said that they would be able to provide half or more of the assistance needed.

The survey also asked cities to select the three "most cost-effective" Federal housing aid programs. (Details on these responses are provided later in this chapter.) For each of those three "most cost-effective" programs, we asked whether funding would likely be replaced from other sources if Federal aid were terminated. Two percent or less of the cities said that more than half of the funding for any of those three "most cost-effective" programs would be replaced from other sources. From 10 to 15 percent of the respondents said that something less than half of the funding would be replaced from other sources. From 83 to 88 percent of the respondents said that there would be "little or no replacement".

## 2. Assessments of 21 Federal Housing Aid Programs

The survey provided a list of 21 specific Federal housing aid programs. Respondents were asked to evaluate the "cost-effectiveness" of each program individually. The question read as follows:

> "Please assess the value of each of the Federal programs listed below. For each dollar spent on each program in your jurisdiction, which programs produced a relatively great benefit in meeting the housing needs of poor people in your city? Which show less effectiveness (or 'bang for the buck')? Suggestion: Imagine that your jurisdiction spends the same amount on each program and compare the programs according to the benefits they produce."

The question was posed this way to encourage respondents to ignore the sheer size of a program (the larger the program in money terms, the greater the impact) and to focus instead on the per dollar benefit. Respondents could rate the program as "highly cost-effective", "moderately cost-effective", or "not cost-effective". Or, respondents could indicate that this program was "not applicable" in their city and/or that they had "no basis for judgment in this jurisdiction". The results of this question are presented in Table III-1.

### TABLE III-1

### ASSESSMENTS OF 21 FEDERAL PROGRAMS

| | Highly cost-effective; great benefit for each dollar spent | Moderately cost-effective; moderate benefit for each dollar spent | Not cost-effective; little benefit per dollar | Number of Respondents (N) |
|---|---|---|---|---|
| a. CDBG | 84.7% | 13.8% | 1.5% | 412 |
| b. Section 8 - Existing Housing | 69.3 | 29.0 | 1.7 | 411 |
| c. Urban Development Action Grant Program | 62.1 | 29.4 | 8.5 | 153 |
| d. Rental Rehabilitation Grants | 61.2 | 30.6 | 8.3 | 327 |
| e. Public Housing Modernization Program | 58.6 | 37.5 | 3.9 | 256 |
| f. Public Housing Operating Subsidy Program | 55.7 | 40.3 | 4.0 | 273 |
| g. Section 202 (Elderly and Handicapped) | 55.5 | 41.3 | 3.2 | 283 |
| h. Section 8 - Rehabilitation Housing | 48.6 | 44.4 | 7.0 | 286 |
| i. HoDAG | 45.1 | 46.2 | 8.8 | 91 |
| j. Housing Vouchers | 44.7 | 48.2 | 7.1 | 226 |
| k. Farmers Home Administration Homeownership Program (Section 502) | 44.6 | 37.5 | 17.9 | 56 |
| l. Multi-family IDBs | 43.7 | 45.9 | 10.4 | 183 |

| | **Highly cost-effective; great benefit for each dollar spent** | **Moderately cost-effective; moderate benefit for each dollar spent** | **Not cost-effective; little benefit per dollar** | **Number of Respondents (N)** |
|---|---|---|---|---|
| m. Low-Income Public Housing Program (Construction) | 43.6 | 44.7 | 11.7 | 257 |
| n. Single Family MRBs | 42.0 | 46.0 | 12.1 | 174 |
| o. Rehabilitation Loan Program (Section 312) | 41.5 | 43.8 | 14.7 | 265 |
| p. FmHA Rural Rental Housing Program (Section 515) | 40.6 | 43.8 | 15.6 | 32 |
| q. Flexible Subsidy Program (Troubled Public Housing Projects | 40.0 | 43.6 | 16.4 | 55 |
| r. Urban Homesteading Program | 36.6 | 43.0 | 20.4 | 93 |
| s. Section 8 - Newly Constructed Housing | 32.8 | 50.2 | 17.0 | 271 |
| t. Section 236 (Multi-family Rental) | 25.9 | 60.4 | 13.7 | 197 |
| u. Section 235 and 235 Revised (Single-Family) | 23.4 | 61.7 | 14.9 | 188 |
| v. Other (Specifiy) ________________ | 85.0 | 15.0 | 0.0 | 20 |

Two caveats are important for understanding these responses. First, since respondents had the option of saying that the program was "not applicable" in their city, the number of cities evaluating each program varies. The percentage of respondents who say, for example, that a given program is "highly cost-effective" is the percentage of those who evaluated that program, not the percentage of the total of 444 cities who responded to the overall survey. This approach makes it more likely that the judgments reported here are based on reasonably full information about each program. The number of respondents on which the percentages are based for each program is provided in the last column of Table III-1. In a few cases, that number is so small that the findings should be treated very tentatively.

The second caveat that the reader should note is that respondents to this question were evaluating each program separately; that is, they were not asked here to rank the programs as to their cost-effectiveness, but rather to use the same benefit per dollar criteria in evaluating each program separately. (A subsequent question in the survey, reported below, asked the respondents to rank the top three programs.)

There is clearly a tendency among the city respondents to give favorable marks to programs that they have experience with. All of the programs received either a "highly cost-effective" or a "moderately cost-effective" rating in huge majorities of the cities. No program received more "not cost-effective" ratings then "highly cost-effective" ratings. No more than 20 percent of the cities rated any program "not cost-effective".

Table III-1 also shows that from 10 to 20 percent of the responding cities view 11 of the 21 programs as "not cost-effective". All of these 11 programs also receive less than majority "highly cost-effective" ratings, but the two rankings are not precisely inversely related. (Disaggregating these data by region or city size proves not to be useful, because the numbers in each cell of the breakdowns are too small to be a basis for reliable analysis.)

Seven of the twenty-one programs received "highly cost-effective" ratings from a majority or more of the respondents. Those seven programs are:

| | |
|---|---|
| CDBG | 84.7% |
| Section 8 Existing Housing | 69.3% |
| UDAG Programs | 62.1% |
| Rental Rehabilitation Grants | 61.2% |
| Public Housing Modernization | 58.6% |
| Public Housing Operating Subsidy | 55.7% |
| Section 202 (Elderly and Handicapped) | 55.5% |

Tables III-2 and III-3 break down the "highly cost-effective" ratings for these seven programs, by city size and by region. As to variations by population, cities under 50,000 are slightly less likely to give "highly cost-effective" ratings than cities over 50,000. As to regional variations, cities in the South and especially in the West are distinctly less favorable to the UDAG program than cities in the Northeast and North Central. (These judgments reflect the regional differences in UDAG awards over the last few years, since the amount of total grant applications began to exceed the amounts of money available under the UDAG program.)

### TABLE III-2

### "HIGHLY COST-EFFECTIVE" PROGRAMS, BY CITY SIZE

| | Total | Less Than 50,000 | 50,000 - 200,000 | Over 200,000 |
|---|---|---|---|---|
| a. CDBG | 84.7% | 82.4% | 86.7% | 82.4% |
| b. Section 8 Existing | 69.3 | 62.5 | 73.5 | 69.2 |
| c. UDAG | 62.1 | 56.8 | 67.1 | 58.3 |
| d. Rental Rehab Grants | 61.2 | 64.2 | 58.6 | 64.7 |
| e. Public Housing Modernization | 58.6 | 50.6 | 62.7 | 62.8 |
| f. Public Housing Operating Subsidy | 55.7 | 49.5 | 59.3 | 58.1 |
| g. Section 202 | 55.5 | 52.3 | 58.1 | 53.2 |

### TABLE III-3

### "HIGHLY COST-EFFECTIVE" PROGRAMS, BY REGION

| | Total | North East | South | North Central | West |
|---|---|---|---|---|---|
| a. CDBG | 84.7% | 85.9% | 85.6% | 83.7% | 83.7% |
| b. Section 8 Existing | 69.3 | 70.0 | 71.9 | 65.7 | 69.2 |
| c. UDAG | 62.1 | 73.9 | 57.7 | 69.7 | 36.4 |
| d. Rental Rehab Grants | 61.2 | 63.3 | 63.4 | 64.2 | 52.7 |
| e. Public Housing Modernization | 58.6 | 51.7 | 65.7 | 58.5 | 50.0 |
| f. Public Housing Operating Subsidy | 55.7 | 59.3 | 54.2 | 55.9 | 54.2 |
| g. Section 202 | 55.5 | 50.0 | 61.7 | 48.0 | 59.1 |

Also, Southern cities are more likely to give high ratings to the public housing modernization program than are cities in the Northeast and the West. This Southern emphasis on the public housing program will reappear in data presented later in the report.

Overall, however, the effect of Tables III-2 and III-3 is to exhibit the relative consensus of the cities, across regions and across population sizes, on assessments of these seven programs. In short, the degree of regional and population size variation is not very great.

The data also allow us to compare, within the category of cities with populations under 50,000, the views of small cities that are entitled to CDBG and those that are not. This comparison is presented for the same seven Federal programs in Table III-4. While entitlement small cities are more likely to give high ratings to the CDBG program than non-entitlement small cities, the percentage of the latter is still very high: 72.2 percent. Furthermore, compared with entitlement small cities, non-entitlement small cities are less likely to give "highly cost-effective" ratings to the Section 8 Program (50.0 to 67.3 percent), Rental Rehab Grants (45.5 to 69.9 percent), and the Public Housing Operating Subsidy program (37.9 to 54.5 percent). On the other hand, non-entitlement small cities are more enthusiastic about the UDAG program (66.7 percent) than are entitlement small cities (51.7 percent).

### TABLE III-4

### "HIGHLY COST-EFFECTIVE" PROGRAMS, SMALL CITIES

| | Small Entitled | Small Not Entitled |
|---|---|---|
| a. CDBG | 86.0% | 72.2% |
| b. Section 8 Existing | 67.3 | 50.0 |
| c. UDAG | 51.7 | 66.7 |
| d. Rental Rehab Grants | 69.9 | 45.5 |
| e. Public Housing Modernization | 51.6 | 47.8 |
| f. Public Housing Operating Subsidy | 54.5 | 37.9 |
| g. Section 202 | 54.1 | 48.1 |

Another comparison of interest is between large cities (those with populations of over 200,000) and urban counties (defined as CDBG entitlement counties with populations over 200,000). (The urban county data is not a part of the totals presented in previous tables. The county data is used here to provide comparison to the large city data.) As shown in Table III-5, urban counties are slightly less likely to give the highest effectiveness rating to CDBG. Urban counties are dramatically less favorable to UDAG, Public Housing Moderization and the Rental Rehabilitation Grant programs than are large cities. On the other hand, urban counties are somewhat more favorable to Section 8 Existing Certificates and the Section 202 program than are large cities.

### III-5

### "HIGHLY COST-EFFECTIVE" PROGRAMS, LARGE CITY/URBAN COUNTY COMPARISONS

| | Large Cities (Over 200,000) | Urban Counties |
|---|---|---|
| a. CDBG | 82.4% | 72.3% |
| b. Section 8 Existing | 69.2 | 76.1 |
| c. UDAG | 58.3 | 20.0 |
| d. Rental Rehab Grants | 64.7 | 45.2 |
| e. Public Housing Modernization | 62.8 | 38.5 |
| f. Public Housing Operating Subsidy | 58.1 | 51.9 |
| g. Section 202 | 53.2 | 65.0 |

3) Ranking Federal programs: the three "most cost-effective"

The survey asked respondents to choose (from the same 21 programs in the list reported in the previous section) the first, second, and third "most cost-effective" programs. In the previous question, respondents were asked to try to use a single standard of evaluation for each of the programs, but the question did not ask the respondent to indicate any comparison or ranking among the programs. In this question, however, each respondent could designate no more than three of the programs as being "most cost-effective". From the previous question, therefore, we get a ranking based on the percentage of cities that said a given program was "highly cost-effective": the ranking was implicit in the multiple answers to the question. In this question, the ranking is explicit: each city respondent chose three programs, at most, and thus did not choose the other 18.

For purposes of analysis, then, the most significant arrangement of the responses to this question is the percentage of cities that chose each program as either their first, second, or third "most cost-effective" selection. This analysis assumes that the most significant distance between the programs in the ranking is the distance between the first, second, and third on the one hand, (i.e., the three programs that were chosen by the respondent) and all the others, on the other hand (i.e., all the other programs that were not selected as first, second, or third "most cost-effective").

Table III-6 presents the frequencies for this aggregated set of responses.

Far and away the cities' top choice as the "most cost-effective" Federal program for housing assistance is the Community Development Block Grant program. CDBG received either the first, second or third choice vote of 73 percent of the 444 cities responding to the survey. Just as clearly, the second "most cost-effective" Federal housing program, according to these 444 cities, is the Section 8 Existing Housing Certificate Program: 47.1 percent of the cities gave this program either their first, second, or third choice. The percentages of cities that rate the next two programs as one of their "most cost-effective" are very close: 27.9 percent for the Rental Rehabilitation Grants and 23.7 percent for the programs that

TABLE III-6

| | | % of Cities Selecting Items as First, Second, or Third Choice |
|---|---|---|
| a. | CDBG | 73.0% |
| b. | Section 8 - Existing Housing | 47.1 |
| c. | Rental Rehabilitation Grants | 27.9 |
| d. | Public Housing Operating Subsidy and/or Modernization Programs | 23.7 |
| e. | Section 202 (Elderly and Handicapped) | 14.6 |
| f. | Section 8 - Rehabilitation Housing | 12.4 |
| g. | Low-Income Public Housing Program (Construction) | 12.2 |
| h. | Urban Development Action Grant Program | 11.0 |
| i. | Section 8 - Newly Constructed Housing | 10.4 |
| j. | Rehabilitation Loan Program (Section 312) | 9.2 |
| k. | Multi-family IDBs | 7.0 |
| l. | Single Family MRBs | 5.2 |
| m. | Housing Vouchers | 5.0 |
| n. | Section 235 and 235 Revised (Single-Family) | 2.9 |
| o. | Urban Homesteading Program | 2.7 |
| p. | Section 236 (Multi-family Rental) | 2.5 |
| q. | HoDAG | 2.0 |
| r. | Farmers Home Administration Homeownership Program (Section 502) | 1.1 |
| s. | Flexible Subsidy Program (Troubled Public Housing Projects) | 0.9 |
| t. | FmHA Rural Rental Housing Program (Section 515) | 0.9 |
| u. | Other (Specify) ________ | 1.6 |

address the maintenance and improvement of the existing stock of public housing.*

The remainder of the cities' votes for first, second and third "most cost-effective" programs are spread across all of the rest of the programs. None of these other programs received the votes of more than 15 percent of the cities.

This assessment by cities produces a striking consensus on the top two "most cost-effective" programs and it also demonstrates a wide spread of opinion regarding the primacy of all of the remaining programs in the list. Three out of four cities agree on the primary importance of CDBG; almost two out of four cities agree on the importance of Section 8. But less than about one out of four cities agree on the primacy of any other program: different cities see different programs as the "most cost-effective" for their community. The latter finding reflects the same spread of opinion, the same view that different programs are effective in different situations, that we found in the data reported in the previous section (see Table III-1) and that will be presented in Chapter IV.

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*The category of "Operating and/or Modernization" for Public Housing is actually a combination of two programs that are listed separately in the survey questionnaire (see Appendix B.) The rationale for the combination is that these are really two aspects of the effort to maintain and improve the public housing stock and, thus, may be considered one "program". (New construction of public housing might also have been combined to create a whole "public housing program" category, but, it seemed reasonable to distinguish between new construction and the existing stock of public housing for these purposes.) Table III-6 reports that 23.7 percent of the 444 responding cities selected either Operating Subsidy or Modernization or both of them as one of their three "most cost-effective" programs. The later classifications by region and city size are based on the same data analysis.

The clear-cut selection of the top two "most cost-effective" programs suggests that either these provide enough flexibility and local control to be able to address the problems of many localities (CDBG), or they are targeted to exactly a set of problems that are shared by many localities (Section 8 Existing is a direct rent assistance program). Analysis of this finding will be further illuminated by data in the next chapter regarding the housing assistance activities that cities think are most important.

The top ranking given to these two programs and the wide spread of the other votes among an array of Federal programs are patterns that consistently appear even when the data is broken down by region and by population size. Table III-7 presents these regional and population size breakdowns for the top four programs in Table III-6. Looking down the columns of the table, there is no variation of much more than 15 percent among the regions or among the size groups. Furthermore, there are only two cases where (reading across the rows of Table III-7) the order of the four programs changes: in the South and in large cities, greater percentages of officials rate the public housing stock programs higher than the Rental Rehabilitation program.

There are, nonetheless, several variations of interest in Table III-7. As to CDBG, small cities are slightly less likely to see the program as one of their "most cost-effective", but two out of three say that it is. Non-entitlement small cities (which are included in the "small city" category here; see also Table III-9) are distinctly less enthusiastic about CDBG than are entitlement small cities. The same pattern holds for small cities' view of Section 8. Small cities and Western cities are less inclined than other cities to rate the Rental Rehabilitation program highly.

The greatest emphasis on the public housing stock (operating and modernization programs) comes from large cities and Southern cities, where that stock is most concentrated.

## TABLE III-7

## MOST COST-EFFECTIVE PROGRAMS BY REGION AND CITY POPULATION

| | CDBG | Section 8 Existing | Rental Rehab | Oper./Mod. Public Housing |
|---|---|---|---|---|
| Total | 73.0% | 47.1% | 27.9% | 23.7% |
| Region | | | | |
| Northeast | 78.6 | 53.6 | 32.1 | 21.4 |
| South | 69.9 | 42.7 | 27.3 | 33.6 |
| North Central | 72.4 | 42.9 | 33.3 | 21.0 |
| West | 73.2 | 51.8 | 20.5 | 15.2 |
| Population | | | | |
| Less than 50,000 | 66.7 | 38.4 | 30.8 | 22.0 |
| 50,000 - 200,000 | 77.2 | 53.9 | 27.2 | 22.8 |
| Over 200,000 | 73.6 | 43.4 | 22.6 | 32.1 |

Two other comparisons are useful here (although the public housing program data are not available for these tables.) First, Table III-8 compares the responses from large cities (those over 200,000 in population) with a separate data set from urban counties. Although urban counties are slightly more likely to rank Section 8 Existing as one of their three "most cost-effective" programs than large cities (51.1 percent to 43.4 percent, respectively), the percentages are virtually the same for urban counties as for large cities with regard to CDBG and the Rental Rehabilitation program.

### TABLE III-8

### MOST COST-EFFECTIVE PROGRAMS
### LARGE CITY/URBAN COUNTY COMPARISON

| | CDBG | Section 8 Existing | Rental Rehab |
|---|---|---|---|
| Large Cities | 73.6 | 43.4 | 22.6 |
| Urban Counties | 70.2 | 51.1 | 25.5 |

A second additional comparison is between small cities (under 50,000 population) that are entitled to receive CDBG funds and those that are not entitled (and that, therefore, may only participate in the discretionary, usually state-run, small cities CDBG programs). This comparison is presented in Table III-9. Entitlement small cities exhibit percentages that are very much like larger cities for each of the three programs.

### TABLE III-9

### MOST COST-EFFECTIVE PROGRAMS, SMALL CITIES

| | CDBG | Section 8 Existing | Rental Rehab |
|---|---|---|---|
| Small Cities-Total | 66.7 | 38.4 | 30.8 |
| Entitlement | 80.9 | 41.8 | 37.1 |
| Non-Entitlement | 38.9 | 31.5 | 18.6 |

Non-entitlement small cities, on the other hand, are far less likely to rank any of these three programs as one of their three most cost-effective. Nonetheless, their relative rankings (that is, which program comes in first, second, and third) are the same as for entitlement small cities and for cities overall.

The nonentitlement small cities also differ from all other cities in that 28.6 percent of the possible votes for first, second or third "most cost-effective" programs were not used. That is, in 28.6 percent of their opportunities to identify a first, second or third "most cost-effective" program, non-entitlement small cities did not make a selection.* The comparable percentage for the total sample of 444 cities is 7.8 percent. These results may tell us that--faced with a request to highlight specific programs--these city officials say that relatively few of the Federal aid programs provide outstandingly cost-effective housing assistance to their communities.

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* This high "no answer" rate is specific to this question. The "no answer" rates are much lower for questions that appear later in the survey questionnaire.

## CHAPTER IV

## WHAT TYPES OF HOUSING ASSISTANCE ACTIVITIES ARE NEEDED?

Putting aside the particular characteristics of current housing assistance programs, what types of activities do city officials think are needed in order to alleviate the housing problems of poor people? This chapter reports on the answers given to this question by the 444 responding cities. In sum, the activities that are "very important" in the largest proportion of cities are housing rehabilitation for both single and multi-family units and direct money aid to low-income renters. In addition, substantial proportions of cities say that many different housing assistance activities are "very important" in addressing the housing needs of poor people.

These two findings--the consensus on the importance of rehabilitation and rental assistance and an array of other housing assistance activities that are "very important" in the largest proportion of cities--are consistent with the findings reported in Chapter 3 regarding the cost effectiveness of Federal programs. That is, the emphases on various rehabilitation activities and on rental assistance are similar to the high ratings given to CDBG and Section 8 Existing Certificates. The spreads of emphasis across all other activities or programs are also similar. It seems likely that this pattern of responses is an underlying structure to the answers to the survey given by the 444 cities.

### 1) Assessments of the Need for Various Housing Assistance Activities

The survey asked city officials to think more generally about housing policy and programs; it asked them to think at the level of "activities" beyond the specific characteristics of Federal, state or local programs. The purpose of this set of questions was to get beyond the advantages and disadvantages of current or proposed programs and to deal more fundamentally with the issue of the kinds of approaches that are required to address low-income housing problems. The 444 responding cities gave some fairly clear answers to this fundamental question.

The survey listed 13 "activities" that "might alleviate the housing problems of poor people". One question asked the respondent to "indicate how important each of these activities would be in addressing the housing needs of low and moderate income households in your city . . . regardless of whether your city now has these activities". In other words, the respondents were being asked to sketch out the dimensions of a housing policy for their cities. It should be noted that the question has to do with the nature of activities that should be be undertaken; disregarded here is the issue of whether the funding and policy guidance for such activities comes from the Federal, state or local levels of government.

The list of 13 activities and the frequencies of the cities' responses are provided in Table IV-1. The 13 activities and the data are listed in declining order according to the frequency of responses to the "very important" rating.

The pattern of these assessments seems fairly clear. First, by far the greatest percentage of cities (79.9 percent) say that rental assistance (that is, direct money payments) would be a "very important activity" in addressing the housing needs of poor

### TABLE IV-1

### ACTIVITIES NEEDED TO ALLEVIATE LOW-INCOME HOUSING PROBLEMS

| | Very Important | Moderately Important | Not Important | Number of Respondents (N) |
|---|---|---|---|---|
| a. Rental assistance (money payments) | 79.9% | 18.8% | 1.4% | 436 |
| b. Rehabilitation of single-family homes | 63.1 | 31.9 | 5.0 | 439 |
| c. Rehab. of multi-family units (privately owned) | 60.0 | 31.5 | 8.5 | 435 |
| d. Construction of new multi-family units | 44.5 | 38.7 | 16.7 | 431 |
| e. Emergency repairs | 42.4 | 47.5 | 10.1 | 434 |
| f. Providing emergency shelters | 40.6 | 41.3 | 18.1 | 414 |
| g. Direct assistance to to help people own housing units | 39.4 | 46.8 | 13.8 | 419 |
| h. Construction of new public housing units | 35.3 | 36.7 | 28.1 | 417 |
| i. Rehab of public housing units | 33.5 | 35.7 | 30.8 | 412 |
| j. Weatherization | 32.6 | 48.9 | 18.6 | 436 |
| k. Site assembly | 26.2 | 41.2 | 32.6 | 386 |
| l. Construction of new single-family units | 22.9 | 49.8 | 27.3 | 428 |
| m. Fair housing programs | 19.4 | 52.2 | 28.4 | 423 |

people in their cities. Second, at the next level down in terms of the percentage of cities giving a "very important" rating, are the two rehabilitation activities (single family--63.1 percent, multi-family--60 percent). Third, the remaining 10 activities were rated as "very important" by proportions of the responding cities ranging from 44.5 percent to 19.4 percent.

These three levels of the "very important" ratings fall quite simply from the data. That is, there is about a 16 percent drop in the percentage of cities between rental assistance and the next activity (single-family rehab). Then there is another 16 percent drop between the third-ranked activity and the fourth (that is, between multi-family rehab and multi-family new construction). There is no such large drop in the percentages at any other point in the remaining rankings of the activities.

There is a tendency for respondents in questions like this one to chose the middle term (in this case "moderately") if they are at all unsure about a judgment. Thus, it is interesting to look not only at the "very important" column, but also at the "not important" column where cities are saying that these activities would not be useful in addressing the housing needs of low and moderate income households in their cities. The analysis of the "very important" column is mirrored here: that is, less than 10 percent of the respondents said that rental assistance and single- and multi-family rehabilitation would be "not important". Percentages ranging from 10 to nearly 33 percent, however, said that the remaining 10 activities would be "not important". In only three cases, however, does the "not important" percentage exceed or approximate the "very important" percentage. Those three cases are: site assembly, construction of new single-family units, and fair housing programs. These contrasting views do not cancel each other out; the survey simply reveals that there are fewer cities for which the activity is "very important" than there are for which it is "not important". The finding is a good illustration of the general point that local problems vary and, therefore, solutions must also vary.

The findings from Table IV-1 might be summarized again as follows. In eight out of ten cities, rental assistance would be important in the creation of an effective housing policy. In six out of ten cities, rehabilitation of single-family and multi-family units would be "very important". The ten other activities would be "very important" in smaller, but still substantial proportions of cities.

Notable for its absence from the top three activities is new construction of any sort. Although there are quite substantial percentages of cities that say that new multi-family construction (44.5 percent) and new public housing construction (35.3 percent) are "very important", new single-family construction is rated as "very important" in only 22.9 percent of cities. These findings cannot be used to conclude that new construction has no place in low-income housing policy, but they do suggest that rehabilitation is more broadly applicable than new construction. (A somewhat different analysis of related data, presented in Chapter V, combines new construction of both publicly- and privately-owned multi-family units.)

2) Assessments, by Region and City Size

The Tables IV-2 through IV-7 present breakdowns of the data presented in Table IV-1: by population, by region, for small cities (CDBG entitlement versus non-entitlement), and for comparison of large cities and urban county data.

Perhaps the most notable conclusion from analysis of these tables is that there is not indeed very much variation across regions and across city size groupings in cities' assessment of the relative importance of these activities. While the following tables and text focus on specific and interesting variations that do exist, the reader should see these specific differences against the background of what appears to be a fairly solid consensus on most of the questions.

Table IV-2 presents the differences among small, medium and large cities. With regard to only 6 of the 13 activities, there is a difference (in the percent of small, medium or large cities that assess the activity as "very important") of more than 10 percentage points. The largest difference in this regard is that 64.7 percent of large cities say that rehabilitation of public housing units would be "very important", whereas only 28 and 29 percent of small and medium cities agree.

Roughly speaking, Table IV-2 shows that--in those cases where there is significant variation by city size--the nature of the variation is that, as city size increases, greater proportions of the cities say that each activity is "very important" for solving housing problems. Again, this finding must be seen in the context of the other major finding, which is that in the case of 7 of the 13 activities there is no significant variation by city size.

Table IV-3 focuses on the variations by city size in the negative assessments of the importance of the 13 activities: activities that cities report would not be important in alleviating low-income housing problems. In only 5 of the 13 cases is there significant variation (10 or more percentage points) among city size groupings. In two cases, these negative assessments mirror the patterns (in Table IV-2) of the "very important" ratings. Thus, large cities are much more inclined to say that providing emergency shelters and rehabilitation of public housing units are "very important" activities. Conversely, large cities are much less inclined then small or medium size cities to say that these are "not important".

## TABLE IV-2

## ACTIVITIES THAT WOULD BE "VERY IMPORTANT" TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

### BY POPULATION SIZE

| | Small (Under 50,000) | Medium (50,000-200,000) | Large (Over 200,000) | Total (All Cities) |
|---|---|---|---|---|
| a. Rental assistance (money payments) | 70.6% | 83.5% | 90.6% | 79.8% |
| b. Rehabilitation of single-family homes | 64.3 | 62.1 | 64.2 | 63.1 |
| c. Rehab. of multi-family units (privately owned) | 58.3 | 58.9 | 69.8 | 60.0 |
| d. Construction of new multi-family units | 38.2 | 46.7 | 53.8 | 44.5 |
| e. Emergency repairs | 36.8 | 45.4 | 45.3 | 42.4 |
| f. Providing emergency shelters | 32.7 | 43.3 | 52.0 | 40.6 |
| g. Direct assistance to help people own housing units | 41.1 | 35.7 | 50.0 | 39.4 |
| h. Construction of new public housing units | 31.5 | 36.9 | 39.2 | 35.3 |
| i. Rehab of public housing units | 28.1 | 29.8 | 64.7 | 33.5 |
| j. Weatherization | 31.8 | 33.5 | 30.8 | 32.6 |
| k. Site assembly | 23.7 | 27.5 | 27.1 | 26.2 |
| l. Construction of new single-family units | 22.1 | 23.9 | 20.8 | 22.9 |
| m. Fair housing programs | 20.8 | 17.3 | 24.5 | 19.4 |

## TABLE IV-3

## ACITIVITES THAT WOULD NOT BE IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

### BY POPULATION SIZE
### (VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

| | Small | Medium | Large | Total |
|---|---|---|---|---|
| f. Providing emergency shelters | 23.8% | 16.1% | 10.0% | 18.1% |
| i. Rehab of public housing units | 28.8 | 36.3 | 13.7 | 30.8 |
| k. Site assembly | 40.5 | 30.9 | 18.8 | 32.6 |
| l. Construction of new single-family units | 28.9 | 28.8 | 17.0 | 27.3 |
| m. Fair housing programs | 33.6 | 27.1 | 18.4 | 28.4 |

Regional variations in the "very important" responses are presented in Table IV-4. The greatest difference occurs with regard to weatherization: there is a 28.7 percent difference between cities in the West (at 17 percent) and those in the North Central region at (45.7 percent).

Looking at the general patterns in Table IV-4, we can say that Northeastern cities are more inclined then cities in other regions to say that any given housing activity is "very important" in solving low income housing problems; and that cities in the West are less inclined than those in the other regions to say this. While this generalization may help the reader and the analyst acquire an orientation toward the data in Table IV-4, it is important to say again that the degree of variation in some of these cases is quite small.

## TABLE IV-4

## ACTIVITIES THAT WOULD BE "VERY IMPORTANT" TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

### BY REGION

| | North East | South | North Central | West | Total |
|---|---|---|---|---|---|
| a. Rental assistance (money payments) | 81.9 | 77.9 | 80.0 | 80.6 | 79.8 |
| b. Rehabilitation of single-family homes | 49.4 | 75.2 | 71.4 | 50.0 | 63.1 |
| c. Rehab. of multi-family units (privately owned) | 67.5 | 52.1 | 68.0 | 56.9 | 60.0 |
| d. Construction of new multi-family units | 53.0 | 46.0 | 36.9 | 43.5 | 44.5 |
| e. Emergency repairs | 37.8 | 47.5 | 51.9 | 29.9 | 42.4 |
| f. Providing emergency shelters | 43.8 | 43.8 | 32.7 | 41.5 | 40.6 |
| g. Direct assistance to help people own housing units | 48.8 | 47.4 | 28.3 | 31.7 | 39.4 |
| h. Construction of new public housing units | 36.6 | 45.3 | 24.0 | 31.6 | 35.3 |
| i. Rehab of public housing units | 38.6 | 44.9 | 26.0 | 20.6 | 33.5 |
| j. Weatherization | 35.7 | 32.6 | 45.7 | 17.0 | 32.6 |
| k. Site assembly | 37.5 | 25.6 | 19.6 | 25.0 | 26.2 |
| l. Construction of new single-family units | 32.5 | 28.3 | 19.4 | 11.5 | 22.9 |
| m. Fair housing programs | 24.7 | 21.3 | 21.2 | 11.2 | 19.4 |

More interesting than these general regional tendencies are some of the specific differences that probably reflect the nature of housing problems among the regions. For example, there is a pattern in the differing mixes of rehabilitation needs in the four regions. With regard to single-family rehabilitation, three quarters of Southern and North Central cities say that it is "very important", but only half of Northeastern and Western cities say that it is "very important". On the other hand, with regard to multi-family units, 68 percent of cities in the Northeast and North Central regions say that it is "very important", while 52.1 and 56.9 percent of cities say this in the South and the West, respectively. To look at this mix in each of the regions it is necessary first, to remind ourselves that all of these percentages are significantly high. Keeping that clearly in mind, we can label the regions as "high" and "less high" as regards single-family or multi-family rehabilitation and obtain combinations as exhibited in Table-4a.

## TABLE IV-4a

## MIXES OF REHABILITAITON NEEDS, BY REGION

| | High Multi-Family Rehab | Less High Multi-Family Rehab |
|---|---|---|
| **High Single Rehab** | North Central | South |
| **Less High Single Rehab** | North east | West |

There is no national uniformity: each region--and indeed each city--has its own mix of rehabilitation needs. This lack of uniformity underlies the spread of "cost effectiveness" ratings (reported in Chapter III) and--in combination with the strong attraction of a program that allows much local autonomy--the very high degree of consensus on the value of CDBG.

Table IV-5 presents the regional variation of the "not important" ratings. It presents data only for those activities where the variation is 10 or more percentage points among the regions. As with the population variations, to some extent these negative ratings are the mirror image of the "very important" ratings. Thus, for example, the North Central and Western cities give significantly higher percentages of "not important" ratings to rehabilitation of public housing units (40.6 and 46.4 percent respectively), and they give significantly lower percentages of "very important" ratings (26.0 and 20.6 percent respectively in Table IV-4). The opposite pattern is mirrored in the two tables for the Northeast and the South regarding rehabilitation of public housing units. Similarly, the North Central and Western cities give higher percentages of "not important" ratings to construction of new single-family units than do the Northeast and South and this mirrors the lower North Central and Western percentages of "very important" ratings for that activity.

Regarding emergency shelters, the percentages found in both Table IV-4 and IV-5 show virtual unanimity among the Northeast, South and West. The North Central cities are less likely to say that providing emergency shelters is "very important" and correspondingly they are more likely to say that it is "not important".

## TABLE IV-5

## ACTIVITIES THAT WOULD NOT BE IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

### BY REGION
### (VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

| | North East | South | North Central | West | Total |
|---|---|---|---|---|---|
| d. Construction of new multi-family units | 8.4 | 17.5 | 20.4 | 18.5 | 16.7 |
| f. Providing emergency shelters | 13.8 | 19.2 | 26.5 | 12.3 | 18.1 |
| g. Direct assistance to help people own housing units | 8.5 | 12.4 | 20.2 | 13.9 | 13.8 |
| h. Construction of new public housing units | 30.5 | 19.0 | 37.0 | 29.6 | 28.1 |
| i. Rehab of public housing units | 25.3 | 16.2 | 40.6 | 46.4 | 30.8 |
| j. Weatherization | 13.1 | 16.3 | 7.6 | 36.8 | 18.6 |
| k. Site assembly | 22.2 | 32.2 | 41.2 | 32.3 | 32.6 |
| l. Construction of new single-family units | 19.3 | 23.2 | 31.1 | 35.6 | 27.3 |

Regarding construction of new public housing units, the percentage of Southern cities that say that it is "very important" is the highest (45.3 percent) of the four regions; the percentage of North Central cities is the lowest (24.0 percent); and the Northeast and West are very similar (at 36.6 and 31.6 percent respectively). Mirroring that pattern, the percentage of Southern cities that say that new public housing units are "not important" is lowest (19.0 percent); the percentage in the North Central region is highest (37.0 percent); and the Northeast and West are virtually the same (30.5 and 29.6 percent).

Another line of analysis is the comparison of small cities that are entitled to Community Development Block Grant funds by formula versus small cities that are not entitled. In Chapter 3, we noted that non- entitlement cities were less likely than entitlement cities to give high ratings to existing Federal programs. Table IV-6 presents the data regarding the activities for which there is a difference between these two types of small cities of 10 or more percentages points. While these four differences may be statistically significant and the difference regarding rental assistance is quite large, the predominant finding here is that, in the case of 9 of the 13 activities, the difference between entitlement and nonentitlement small cities is small and no greater than 10 percentage points.

This finding reinforces the conclusion reached at the end of the previous chapter. If the needs of non-entitlement small cities seem to be roughly the same as the needs of entitlement small cities, then the striking difference between them as regards the adequacy of Federal housing assistance is all the more persuasive as a basis for arguing that these small non-entitlement communities are a special locus of negligence in the operation of Federal housing assistance.

Table IV-7 presents the comparison between large cities' and urban counties' assessments regarding the four of the 13 activities for which there a difference between large cities and urban counties of 10 percentage points or more. (The reader is reminded that the urban county data is not a part of the 444 respondent data base which is the foundation of all other tables and data analysis.)

### TABLE IV-6

### ACTIVITIES THAT WOULD BE VERY IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

### SMALL CITIES (VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

| | Not Entitled | Entitled | All Small Cities |
|---|---|---|---|
| a. Rental assistance (money payments) | 78.1 | 54.2 | 70.6 |
| b. Rehabilitation of single-family homes | 68.3 | 56.0 | 64.3 |
| f. Providing emergency shelters | 36.4 | 25.0 | 32.7 |
| i. Rehab of public housing units | 33.7 | 16.7 | 28.1 |

The greatest difference is the strong emphasis among large cities on rehabilitation of public housing units (64.7 percent) and the relative lack of interest by urban counties in this (25.6 percent). There is a slightly greater tendency for large cities to say that rehabilitation activities are important than there is in urban counties. The reverse is true with the regard to the construction of new multi-family units. Beyond these differences--which probably reflect the condition of the housing stock and housing markets in older, central areas versus newer outer areas--large cities and urban counties assess the importance of most other housing assistance activities in much the same ways.

## TABLE IV-7

### ACTIVITIES THAT WOULD BE VERY IMPORTANT TO ALLEVIATE LOW INCOME HOUSING PROBLEMS

### LARGE CITIES VERSUS URBAN COUNTIES (VARIATIONS OF 10 OR MORE PERCENTAGE POINTS)

| | Large Cities | Urban Counties | Total |
|---|---|---|---|
| b. Rehabilitation of single-family homes | 64.2 | 53.2 | 59.0 |
| c. Rehab. of multi-family units (privately owned) | 69.8 | 53.2 | 62.0 |
| d. Construction of new multi-family units | 53.8 | 72.3 | 62.6 |
| i. Rehab of public housing units | 64.7 | 25.6 | 46.8 |

# CHAPTER V

# PRIORITIES FOR FEDERAL HOUSING POLICY

## 1) Priorities

Following the question regarding the importance of various housing assistance activities (described in the previous chapter), the survey asked city officials to use that same list of activities to rank their importance for the Federal role in housing policy. Specifically, the question instructed respondents to "assume that Federal housing assistance is going to be completely revised and adequately funded. Which of the activities listed would be your city's top three priorities for emphasis in such a revised housing policy?"

In the previous question, respondents evaluated each activity separately. The rankings that result, as shown in the tables in Chapter IV are implicit rankings deriving from varying percentages of cities that said that each of the activities is "very important". In this next question, city officials were explicitly asked to compare the importance of each of these activities with all others and specifically to rank the activities first, second, and third as opposed to all of the others. For purposes of analysis, the largest distance between the activities in each city's ranking is the distance between the first, second, and third choices, taken together on the one hand, and all of the others on the other hand. Therefore, in the analyses of these data that follow, the focus is on the accumulation of the first, second, and third choices taken together as the basis for reporting cities' priorities for a revised Federal housing policy.

Table V-1 presents the aggregate frequencies of the cities' answers to this question. Each of the percentages in the table are the percent of the 444 cities that chose this activity as the first, second, or third choice.

### TABLE V-I

### PRIORITIES FOR A NEW FEDERAL HOUSING POLICY

| | | % of Cities Selecting Items as First, Second, or Third Choice |
|---|---|---|
| a. | Rental assistance (money payments) | 60.8% |
| b. | Rehabilitation of single-family homes | 52.9 |
| c. | Rehab. of multi-family units (privately owned) | 43.2 |
| d. | Construction of new multi-family units | 27.7 |
| e. | Construction of new public housing units | 20.7 |
| f. | Direct assistance to help people own housing units | 18.5 |
| g. | Rehab. of public housing units | 14.9 |
| h. | Construction of new single-family units | 12.2 |
| i. | Emergency repairs | 11.0 |
| j. | Site assembly | 7.4 |
| k. | Providing emergency Shelters | 7.4 |
| l. | Weatherization | 5.6 |
| m. | Fair housing programs | 2.0 |

Cities' top priorities for emphasis emerge fairly clearly from the table. The first priority is rental assistance (60.8); the second is rehabilitation of single-family homes (52.9 percent); and the third priority is rehabilitation of multi-family units (43.2 percent). These are the same three activities that top the ranking in Table IV-1. Activities that are seen as "very important" for addressing local low-income housing problems are also suggested as the primary emphases for Federal housing policy.

In the ranking, these three priorities are followed by a gap of about 16 percent, the largest single gap between the activities in the entire list. The fourth most frequently selected priority is construction of new multi-family units which is followed, after a gap of 7 percentage points by construction of new public housing units (20.7 percent). From "new multi-family" on down through the rest of the list, there is no gap between the activities of more than 7 percentage points.

Thus, the first major finding from the table is the clarity of the top three priorities: rental assistance, single-family rehabilitation and multi-family rehabilitation. A total of 52.3 percent of the cities' "votes"* as to priorities for Federal housing policy were given to these three activities.

A second major finding from the table also seems fairly clear: Federal support for a variety of other activities is also seen as crucial by some cities. The cities spread the other half of their "votes" across the 10 other activities. Although the orders of magnitude become quite small, there is no logical place in the remainder of the ranking list to cut it off.

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*Each of the 444 city respondents could "vote" for a first, second, and third priority. Thus, there is a potential total of 1,332 votes (3 x 444).

### 2) New Construction

Another interesting aspect of the table concerns the topic of new construction. Compared to rehabilitation, there is a relative lack of emphasis by city officials here on construction of new units. Moreover, there is approximately as much emphasis on new public housing construction as there is on construction of multi-family privately-owned units. Providing new single family units is a priority for only 12.2 percent of cities. The category of new multi-family units, however, is split into two "activities" in the list. This split--although it follows the conventional distinction between privately-owned and public housing units--understates the extent to which city officials are reporting a need for newly constructed multi-family units for low-income households. When these two activities are recalculated, the result is that 42.0 percent of cities place one or the other or both among their priorities for emphasis in Federal policy. (The two percentages in Table V-1 cannot be simply added together because some cities would be counted twice.) Recalculating the same combination of public and private units for the rehabilitation category, the result is that 53.2 percent of cities rank this category among their priorities. The list in Table V-1 is thus changed somewhat:

| | |
|---|---|
| Rental assistance | 60.8% of cities |
| Rehabilitation, multi | 53.2 |
| Rehabilitation, single | 52.9 |
| New construction, multi | 42.0 |

Multi-family new construction is still fourth on the list (the two sub-categories are fourth and fifth in Table V-1) but at a higher level. And, beyond these four activities, there is a drop of more than twenty percentage points to the next item in the list.

Regionally, North Central cities are least likely (31.0 percent) to make public/private new multi-family construction a priority. Northeast cities are most likely (44.0 percent) and the West (37.9 percent) and South (39.3 percent) come between. Cities of different sizes all support this as a priority with similar frequency: small--37.7 percent, medium--44.8 percent, and large--41.5 percent.

These recalculated categories are not used in the subsequent tables in this chapter because the loss of the public/private distinction dilutes the programmatic implications of the findings. Also, most cities chose either publicy-owned or privately-owned multi-family activities, suggesting that the respondents do not see these as interchangeable.

### 3) Priorities by Region and City Size

In the tables and the associated text on the following pages, the data in Table V-1 are disaggregated by region and city size. The focus of these analyses is on differences among regions and city size groupings. Overall, however, there is a striking degree of similarity among cities.

There also is very little variation in the degree to which cities in different regions or cities of different sizes concentrated their priority "votes" on the three top activities: rent assistance, single-family rehabilitation and multi-family rehabilitation. The index of this concentration for all cities is 52.3 percent. Table V-2 presents the indices of concentration for cities by region and by city size and shows a high degree of consensus on the priorities for emphasis in a revised Federal housing policy. This is the context in which the more specific variations in subsequent tables should be understood.

Table V-3 disaggregates the priority choices by the four major Census regions. As regards rental assistance, a lower percentage (53.6 percent) of Northeast cities give it priority as compared to the West where the highest percent of cities give it priority (67.0 percent). The variations among the regions with regard to rehabilitation of single-family and multi-family units is analogous

## TABLE V-2

## INDICES OF CONCENTRATION

| | % of Cities Priority Votes Concentrated on Rental Assistance, Rehab-Single, and Rehab-Multi |
|---|---|
| All Cities | 52.3% |
| Region | |
| North East | 48.0 |
| South | 52.0 |
| North Central | 56.2 |
| West | 52.4 |
| City Size | |
| Under 50,000 | 49.3 |
| 50,000 - 200,000 | 54.2 |
| Over 200,000 | 53.5 |
| Small Cities | |
| Entitlement | 50.8 |
| Non-entitlement | 46.3 |
| Large Jurisdictions | |
| Large Cities | 53.5 |
| Urban Counties | 40.4 |

to the pattern reported in the previous chapter. (See Table IV-4a for a summary of that pattern.) Northeast cities are more interested than cities in other regions in the construction of new multi-family units. Paralleling the findings in Chapter III and in Chapter IV, Southern cities show more emphasis on public housing, both in new construction and rehabilitation, than do cities in other regions.

City size does not seem to have very much effect on selection of priorities for a revised Federal housing policy. Table V-4 presents this data. The most significant difference among the size groups of cities occurs with regard to the rental assistance activity: small cities (49.7 percent) are much less likely to give priority to this activity then are any of the cities over 50,000.

Large cities are more likely than other cities to give priority to the rehabilitation of multi-family units (52.8 percent) and to rehabilitation of public housing units (26.4 percent). There are no other differences of more than ten percentage points among the size groups.

## TABLE V-3

## PRIORITIES FOR FEDERAL HOUSING POLICY, BY REGION

| | | % of All Cities Selecting Items as First, Second or Third Choice | North East | South | North Central | West |
|---|---|---|---|---|---|---|
| a. | Rental assistance (money payments) | 60.8% | 53.6% | 62.2% | 58.1% | 67.0% |
| b. | Rehabilitation of single-family homes | 52.9 | 40.5 | 60.8 | 60.0 | 45.5 |
| c. | Rehab. of multi-family units (privately owned) | 43.2 | 50.0 | 32.9 | 50.5 | 44.6 |
| d. | Construction of new multi-family units | 27.7 | 36.9 | 23.8 | 23.8 | 29.5 |
| e. | Construction of new public housing units | 20.7 | 17.9 | 31.5 | 11.4 | 17.9 |
| f. | Direct assistance to help people own housing units | 18.5 | 23.8 | 18.9 | 18.1 | 14.3 |
| g. | [illegible]hab. of public [illegible]sing units | 14.9 | 14.3 | 19.6 | 15.2 | 8.9 |
| h. | [illegible]onstruction of new single-family units | 12.2 | 17.9 | 10.5 | 10.5 | 11.6 |
| i. | Emergency repairs | 11.0 | 9.5 | 11.2 | 12.4 | 10.7 |
| j. | Site assembly | 7.4 | 7.1 | 4.9 | 5.7 | 12.5 |
| k. | Providing emergency shelters | 7.4 | 3.6 | 4.2 | 6.7 | 15.2 |
| l. | Weatherization | 5.6 | 3.6 | 5.6 | 9.5 | 3.6 |
| m. | Fair housing programs | 2.0 | 2.4 | 2.1 | 2.9 | 0.9 |

## TABLE V-4

## PRIORITIES FOR A NEW FEDERAL HOUSING POLICY, BY CITY SIZE

| | | % of All Cities Selecting Items as First, Second, or Third Choice | Under 50,000 | 50,000-200,000 | Over 200,000 |
|---|---|---|---|---|---|
| a. | Rental assistance (money payments) | 60.8% | 49.7% | 68.5% | 60.4% |
| b. | Rehabilitation of single-family homes | 52.9 | 55.3 | 52.6 | 47.2 |
| c. | Rehabilitation of multi-family units (privately owned) | 43.2 | 42.8 | 41.4 | 52.8 |
| d. | Construction of new multi-family units | 27.7 | 24.5 | 29.3 | 30.2 |
| e. | Construction of new public housing units | 20.7 | 20.8 | 20.7 | 20.8 |
| f. | Direct assistance to help people own housing untis | 18.5 | 22.6 | 16.8 | 13.2 |
| g. | Rehabilitation of public housing units | 14.9 | 17.0 | 10.8 | 26.4 |
| h. | Construction of new single-family units | 12.2 | 15.1 | 9.9 | 13.2 |
| i. | Emergency repairs | 11.0 | 12.6 | 10.3 | 9.4 |
| j. | Site assembly | 7.4 | 8.8 | 7.8 | 1.9 |
| l. | Weatherization | 5.6 | 6.9 | 6.0 | 0.0 |
| m. | Fair housing programs | 2.0 | 1.9 | 2.6 | 0.0 |

Within the category of small cities (under 50,000), the data allow us to compare cities that are entitled to CDBG funds and cities that are not entitled. Table V-5 presents this comparison for the top six activities in the priority ranking. Entitled cities are more likely to give priority to the rehabilitation of single-family homes. Cities that are not CDBG-entitled are more likely to give emphasis to direct assistance to help people own their own homes. Beyond these two differences, there are no variations of more than ten percentage points between entitled and non-entitled small cities as to the priorities for a new Federal housing policy.

Table V-6 presents a comparison between large cities (over 200,000) and urban counties. There is a striking difference between these two types of jurisdictions regarding multi-family units. The percentage of each which give priority to rehabilitation and construction are approximately reversed. The reversal probably reflects the extent to which, in large cities, city officials are dealing with multi-family structures already in place while, in urban counties, officials are dealing with a situation in which land is available for multi-family units that are much in demand for in-migrants. Urban counties also place less emphasis on rehabilitation of single family houses and of public housing units than do large cities.

**TABLE V-5**

**PRIORITIES FOR A NEW FEDERAL HOUSING POLICY: SMALL CITIES**

| | Entitled | Not Entitled |
|---|---|---|
| a. Rental assistance (money payments) | 49.6% | 50.0% |
| b. Rehabilitation of single-family homes | 60.0 | 46.3 |
| c. Rehabilitation of multi-family units (privately owned) | 42.8 | 42.6 |
| d. Construction of new multi-family units | 25.7 | 22.3 |
| e. Construction of new public housing units | 21.0 | 20.4 |
| f. Direct assistance to help people own housing units | 18.1 | 31.4 |

**TABLE V-6**

**PRIORITIES FOR A NEW FEDERAL HOUSING POLICY: LARGE CITY/URBAN COUNTY COMPARISON**

| | Large Cities | Urban Counties |
|---|---|---|
| a. Rental assistance (money payments) | 60.4% | 55.3% |
| b. Rehabilitation of single-family homes | 47.2 | 38.3 |
| c. Rehabilitation of multi-family units (privately owned) | 52.8 | 27.7 |
| d. Construction of new multi-family units | 30.2 | 49.0 |
| e. Construction of new public housing units | 20.8 | 27.6 |
| f. Rehabilitation of public housing units | 26.4 | 10.7 |
| g. Construction of new single-family units | 13.2 | 17.0 |

# APPENDIX A

## THE RESEARCH PROCESS AND THE SAMPLE

### Research Process

In March 1986, NLC sent a survey questionnaire to 940 communities. The purpose of the survey was to gather current information on three specific questions:

(1) Which groups of people face housing problems?

(2) How do city officials evaluate the effectiveness of existing Federal programs?

(3) What kinds of activities do city officials think are necessary to address current housing problems of poor people?

The survey questionnaire had four major sections, A-D, covering (A) housing problems and possible solutions, (B) existing housing programs, (C) structure of local housing administration, and (D) additional comments related to particular local innovations and policy priorities. This report focuses on the first two sections of the questionnaire and incorporates additional relevant information from the other sections.

When we selected the group of cities to survey, we first decided to send questionnaires to all those cities with populations of more than 50,000. Since we also wanted to sample cities with populations of less than 50,000, we chose two groups among these smaller cities: (1) all those communities entitled to receive Community Development Block Grant (CDBG) funds and (2) a sample of small communities which are not entitled. Finally, we also

decided to send questionnaires to the set of all urban counties which are CDBG entitled (and have a population of 200,000 and over); the thought was that data from these counties would contribute to characterizations of large metropolitan areas.

In March 1986, the survey was mailed to 940 jurisdictions which emerged from these initial specifications. Since all cities over 50,000 are by definition CDBG-entitled, the list turned out to consist of three convenient groups:

(1) the 707 cities of all sizes listed by HUD as CDBG entitlement communities for FY 1985;

(2) the sample of 150 non-entitlement small cities; and

(3) the 107 urban counties listed by HUD as CDBG entitlement communities for FY 1985.

The samples of entitlement communities, both cities and urban counties, were straightforward. Lists were simply drawn from HUD's Directory of Allocations for Fiscal Years 1980-1985.

For the non-entitlement small cities, the selection process was slightly more complicated since there are thousands of small cities. A list of NLC member cities which are also nonentitlements was available; under the assumption that this list was not biased in any relevant way, we randomly selected a group of 150 small nonentitlement cities distributed evenly over the four basic geographical regions used in the survey. In the end, the selection yielded 37 cities each from the Northeast, North Central, and South regions and 39 cities from the West, for a total of 150 nonentitlement communities.

Surveys were mailed to the mayor or manager in each city, with a request that he or she complete the questionnaire or have another knowledgeable person complete it. The intention was that the questions would be answered by a city official whom the chief executive felt to be a well-informed spokesperson.

In April, a follow-up memorandum with a second questionnaire was mailed to all cities which had not yet responded. By mid-June, we had received a total of 491 returns from 388 entitlement cities, 56 non-entitlement cities, and 47 entitlement urban counties.

## Profile of the Respondents

The response rate for the survey was 51.5 percent overall. (See Table I-I)

### TABLE I-I

### RESPONDENTS--BY CATEGORIES IN THE RESEARCH SAMPLE

| | Number of Questionnaires Sent | Number Returned | Percent Returned |
|---|---|---|---|
| Cities: | 857 | 444 | 51.8% |
| Entitlement | 707 | 388 | 54.9 |
| Non-entitlement | 150 | 56 | 37.3 |
| Urban Counties | 107 | 47 | 43.9 |
| Total | 954 | 491 | 51.5 |

The 444 responses from cities constitute the primary data base for this study. The urban county responses are not a part of that 444 data base. The 47 urban county responses are used throughout the report as a comparison with the large cities (which are a part of the 444).

The next several tables present further description of the responding communities. Table I-2 shows the respondents by region.

### TABLE I-2

### RESPONDENTS BY REGION

| | Number of Jurisdictions | Percent of Respondents |
|---|---|---|
| Northeast | 91 | 18.5% |
| South | 163 | 33.2 |
| North Central | 113 | 23.0 |
| West | 124 | 25.3 |
| Total | 491 | 100.0% |

In addition to these four regions, the Census Bureau also uses nine "divisions" to look at characteristics of different sections of the country. Table I-3 shows how the states are grouped into these divisions. Analysis and cross-tabulations in this report rely primarily on the broader regions with mention of divisions where appropriate.

## TABLE I-3

## REGIONS AND DIVISIONS

**Northeast Region**

New England Division
- Maine
- New Hampshire
- Vermont
- Massachusetts
- Rhode Island
- Connecticut

Mid-Atlantic
- New York
- New Jersey
- Pennsylvania
- Puerto Rico

**North Central Region**

East North Central
- Ohio
- Indiana
- Illinois
- Michigan
- Wisconsin

West North Central
- Minnesota
- Iowa
- Missouri
- North Dakota
- South Dakota
- Nebraska
- Kansas

**South Region**

South Atlantic
- Delaware
- Maryland
- District of Columbia
- Virginia
- West Virginia
- North Carolina
- South Carolina
- Georgia
- Florida

East South Central
- Kentucky
- Tennessee
- Alabama
- Mississippi

West South Central
- Arkansas
- Louisiana
- Oklahoma
- Texas

**West Region**

Mountain
- Montana
- Idaho
- Wyoming
- Colorado
- New Mexico
- Arizona
- Utah
- Nevada

Pacific
- Washington
- Oregon
- California
- Alaska
- Hawaii

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Table I-4 presents a profile of responding cities based on differences in population size.

## TABLE I-4

## RESPONDENTS BY POPULATION CATEGORIES

| Population | Number of Cities | Percent of Respondents |
|---|---|---|
| **Small** | 159 | 35.8% |
| Less than 10,000 | 15 | 3.4 |
| 10,000-19,999 | 21 | 4.7 |
| 20,000-49,999 | 123 | 27.7 |
| **Medium** | 232 | 52.3 |
| 50,000-99,999 | 152 | 34.2 |
| 100,000-199,999 | 80 | 18.0 |
| **Large** | 53 | 11.9 |
| 200,000-499,999 | 32 | 7.2 |
| 500,000 or more | 21 | 4.7 |
| **Total** | 444 | 100.0% |

Of the 73 cities with populations over 200,000, 53 responded to the survey; in this report, these are classified as "large" cities. Cities between 50,000 and 199,999 are classified as "medium", and all those less than 50,000 are "small". The analyses in the report rely on these three categories.

In order to enrich the description of the spectrum of population size, two supplementary types of analysis are also provided. Among the small cities, a distinction can be made between those with CDBG entitlement status and those without. Of 159 small cities which submitted responses, 105 are entitled and the remaining 54 are non-entitled. The interesting differences between these two groups are highlighted throughout the report. At the other end of the size spectrum, the second type of supplementary analysis is a comparison between those cities in the large population category and the urban counties. There are 53 large cities and 47 urban counties among the survey responses. Both kinds of jurisdictions have populations of over 200,000, and both are entitled to CDBG funds. Again, this comparison is included where it enhances the description of results.

The next table, Table I-5, shows the distribution of respondents by city type. The sample was weighted towards the "central city" category by virtue of the fact that all central cities of an MSA are qualified as entitlement cities by definition.

### TABLE I-5

### RESPONDENTS BY CITY TYPE

| | Number of Jurisdictions | Percent of Respondents |
|---|---|---|
| Central Cities | 238 | 48.5% |
| Suburbs | 138 | 28.1 |
| Non-metropolitan | 68 | 13.8 |
| Urban Counties | 47 | 9.6 |

Finally, to complete the picture of respondents, Table I-6 displays the different types of city officials who filled out the questionnaire.

### TABLE I-6

### RESPONDENTS BY POSITION IN LOCAL GOVERNMENT

| Position | Number of Respondents | Percent of Respondents |
|---|---|---|
| Mayor | 43 | 8.8% |
| Council Member | 2 | .4 |
| City Commissioner | 2 | .4 |
| City Manager | 30 | 6.1 |
| Member of Mayor's or Manager's Staff | 44 | 9.0 |
| City Department Head | 176 | 35.8 |
| Other | 194 | 39.5 |

## FREQUENCY DATA FROM SURVEY

## "HOUSING PROBLEMS IN AMERICA'S CITIES"

NATIONAL LEAGUE OF CITIES
1986

This document presents the original survey questions and the frequencies (in percentages) of the respondents' answers. Frequencies are a percent of the number of respondents who answered that specific question (e.g., N = 399). The total number of cities that responded to the survey is 444. In cases where long lists of items are presented, the items have been re-arranged into descending order of frequencies in the first column. Data for some questions in the survey are not presented here, because they allowed open-ended answers and are thus difficult to summarize, or because the question is not treated in the text of this report.

### Characteristics of The 444 Responding Cities

1. Type of City

| | Percent | Number |
|---|---|---|
| Central City | 53.6% | 238 |
| Suburban City | 31.1 | 138 |
| Non-metropolitan City | 15.3 | 68 |

2. Population

| | | |
|---|---|---|
| Less than 10,000 | 3.4% | 15 |
| 10,000 to 19,999 | 4.7 | 21 |
| 20,000 to 49,999 | 27.7 | 123 |
| 50,000 to 99,999 | 34.2 | 152 |
| 100,000 to 199,999 | 18.0 | 80 |
| 200,000 to 499,999 | 7.2 | 32 |
| 500,000 or more | 4.7 | 21 |

4. Region

| | | |
|---|---|---|
| Northeast | 18.9% | 84 |
| South | 32.2 | 143 |
| North Central | 23.6 | 105 |
| West | 25.2 | 112 |

5. CDBG Entitlement States

| | | |
|---|---|---|
| Entitled | 87.4% | 388 |
| Nonentitlement | 12.6 | 56 |

1. For people in each of the following groups in your city, how severe are the problems they face in finding housing that is decent, appropriate, and affordable?

| | Face Severe Problems | Face Moderate Problems | Face Few Problems | Number of Respondents (N) |
|---|---|---|---|---|
| a. Homeless people | 58.0% | 31.2% | 10.8% | 388 |
| b. Low income renters | 53.4 | 40.5 | 6.1 | 440 |
| c. Low income homeowners | 39.6 | 51.0 | 9.4 | 437 |
| d. Families with 3 or more children | 39.1 | 47.1 | 13.8 | 435 |
| e. Female-headed households | 36.3 | 50.2 | 13.5 | 438 |
| f. Recent immigrants | 33.1 | 43.8 | 23.1 | 299 |
| g. Handicapped persons | 22.6 | 57.3 | 20.0 | 424 |
| h. Elderly | 21.1 | 59.0 | 19.9 | 437 |
| i. Blacks | 16.3 | 49.6 | 34.1 | 405 |
| j. Hispanics | 12.7 | 52.3 | 35.0 | 346 |
| k. Young couples | 7.2 | 45.8 | 47.0 | 432 |
| l. Single persons | 5.0 | 34.3 | 60.8 | 423 |
| m. Other ____________________ | 57.0 | 31.4 | 11.6 | 86 |

2. This question has several parts and it refers back to your answers to the previous question. It asks you to imagine that all Federal housing assistance has disappeared.

Assume that no Federal housing assistance is available.

(a) Which three of the above groups of the low and moderate income population would be most in need of assistance in your city? (N = 444 for each of the first three columns. N = 444 for each row in the fourth column.)

| | First Choice | Second Choice | Third Choice | % of Cities Selecting Items as First Second, or Third Choice |
|---|---|---|---|---|
| a. Low income renters | 40.1% | 23.0% | 13.1% | 76.1% |
| b. Elderly | 18.5 | 16.4 | 23.0 | 47.3 |
| c. Families with 3 or more children | 13.3 | 13.1 | 12.6 | 39.0 |
| d. Female-headed households | 8.1 | 16.4 | 12.4 | 40.3 |
| e. Low income homeowners | 7.2 | 14.6 | 13.3 | 35.1 |
| f. Homeless people | 4.7 | 6.3 | 11.5 | 22.5 |
| g. Blacks | 1.4 | 2.5 | 2.9 | 6.8 |
| h. Handicapped persons | 0.9 | 1.8 | 6.1 | 8.8 |
| i. Young couples | 0.9 | 2.0 | 1.8 | 4.7 |
| j. Recent immigrants | 0.7 | 1.8 | 1.4 | 3.8 |
| k. Hispanics | 0.5 | 0.9 | 1.8 | 3.2 |
| l. Single persons | 0.0 | 0.5 | 1.8 | 2.3 |
| m. Other ____________________ | 1.4 | 0.0 | 1.4 | 3.6 |
| n. No response | 2.5 | 1.4 | 3.6 | 7.5 |

(b) Now please indicate the most appropriate general ways of addressing the housing problems of these three groups most in need in your city (from previous question.)

(c) Next please indicate whether your city--from whatever sources other than Federal--could provide half or more of the needed assistance over the next five years.

| **Groups** | | **Forms of Assistance**<br>**Make more units available** | **Preserve existing housing/prevent displacement** | **Provide money to make units affordable** | **Help overcome discrimination** | **Without Federal aid city could provide half or more of assistance needed** |
|---|---|---|---|---|---|---|
| **First:** | N = 444 | 60.8% | 56.1% | 71.2% | 10.6% | 3.6% |
| **Second:** | N = 444 | 56.3 | 56.3 | 69.4 | 12.8 | 3.4 |
| **Third:** | N = 444 | 57.2 | 55.0 | 63.1 | 17.1 | 4.1 |

3. Following are several categories of activities that might alleviate the housing problems of poor people. The mix of activities needed will vary among cities.

Regardless of whether your city now has these activities, please indicate how important each of these activities would be, in your opinion, in addressing the housing needs of low and moderate income households in your city.

| | **Very Important** | **Moderately Important** | **Not Important** | **Number of Respondents (N)** |
|---|---|---|---|---|
| a. Rental assistance (money payments) | 79.9% | 18.8% | 1.4% | 436 |
| b. Rehabilitation of single-family homes | 63.1 | 31.9 | 5.0 | 439 |
| c. Rehab. of multi-family units (privately owned) | 60.0 | 31.5 | 8.5 | 435 |
| d. Construction of new multi-family units | 44.5 | 38.7 | 16.7 | 431 |
| e. Emergency repairs | 42.4 | 47.5 | 10.1 | 434 |
| f. Providing emergency shelters | 40.6 | 41.3 | 18.1 | 414 |
| g. Direct assistance to help people own housing units | 39.4% | 46.8% | 13.8% | 419 |
| h. Construction of new public housing units | 35.3 | 36.7 | 28.1 | 417 |
| i. Rehab of public housing units | 33.5 | 35.7 | 30.8 | 412 |
| j. Weatherization | 32.6 | 48.9 | 18.6 | 436 |
| k. Site assembly | 26.2 | 41.2 | 32.6 | 386 |
| l. Construction of new single-family units | 22.9 | 49.8 | 27.3 | 428 |
| m. Fair housing programs | 19.4 | 52.2 | 28.4 | 423 |
| n. Other (Specify) ________ | 86.1 | 13.9 | 0.0 | 36 |

4. Now assume that Federal housing assistance is going to be completely revised and adequately funded. Which of the activities listed above (in Question 3) would be your city's top priorities for emphasis in such a revised Federal housing policy? (N = 444 for each of the first three columns. N = 444 for each row in the fourth column.)

| | **First Choice** | **Second Choice** | **Third Choice** | **% of Cities Selecting Items as First Second, or Third Choice** |
|---|---|---|---|---|
| a. Rental assistance (money payments) | 30.6% | 17.1% | 13.1% | 60.8% |
| b. Rehabilitation of single-family homes | 20.0 | 19.1 | 13.7 | 52.9 |
| c. Rehab. of multi-family units (privately owned) | 9.7 | 19.8 | 13.7 | 43.2 |
| d. Construction of new multi-family units | 9.5 | 9.9 | 8.3 | 27.7 |

| | First Choice | Second Choice | Third Choice | % of Cities Selecting Items as First Second, or Third Choice |
|---|---|---|---|---|
| e. Construction of new public housing units | 8.8% | 5.2% | 6.8% | 20.7 |
| f. Construction of new single-family units | 5.0 | 3.8 | 3.4 | 12.2 |
| g. Rehab. of public housing units | 3.4 | 3.8 | 7.7 | 14.9 |
| h. Site Assembly | 3.2 | 2.0 | 2.3 | 7.4 |
| i. Emergency repairs | 1.1 | 3.4 | 6.5 | 11.0 |
| j. Direct assistance to help people own housing units | 0.9 | 8.3 | 9.2 | 18.5 |
| k. Providing emergency shelters | 0.5 | 2.0 | 5.0 | 7.4 |
| l. Fair housing programs | 0.2 | 2.0 | 5.0 | 7.4 |
| m. Weatherization | 0.0 | 2.0 | 3.6 | 5.6 |
| n. Other (Specify) ___________ | 0.9 | 0.2 | 0.9 | 2.0 |
| o. No Response | 6.3 | 2.7 | 4.5 | 14.7 |

5. Please assess the value of each of the Federal programs listed below. For each dollar spent on each program in your jurisdiction, which programs produce a relatively great benefit in meeting the housing needs of poor people in your city? Which show less effectiveness (or "bang for the buck")? Suggestion: imagine that your jurisdiction spends the same amount on each program and compare the programs according to the benefits they produce.

| | Highly cost effective; great benefit for each dollar spent | Moderately cost effective; moderate benefit for each dollar spent | Not cost effective; little benefit per dollar | Number of Respondents (N) |
|---|---|---|---|---|
| a. CDBG | 84.7% | 13.8% | 1.5% | 412 |
| b. Section 8 - Existing Housing | 69.3 | 29.0 | 1.7 | 411 |
| c. Urban Development Action *Grant Program* | *62.1* | *29.4* | *8.5* | 153 |

| | Highly cost effective; great benefit for each dollar spent | Moderately cost effective; moderate benefit for each dollar spent | Not cost effective; little benefit per dollar | Number of Respondents (N) |
|---|---|---|---|---|
| d. Rental Rehabilitation Grants | 61.2% | 30.6% | 8.3% | 327 |
| e. Public Housing Modernization Program | 58.6 | 37.5 | 3.9 | 256 |
| f. Public Housing Operating Subsidy Program | 55.7 | 40.3 | 4.0 | 273 |
| g. Section 202 (Elderly and Handicapped) | 55.5 | 41.3 | 3.2 | 283 |
| h. Section 8 - Rehabilitation Housing | 48.6 | 44.4 | 7.0 | 286 |
| i. HoDAG | 45.1 | 46.2 | 8.8 | 91 |
| j. Housing Vouchers | 44.7 | 48.2 | 7.1 | 226 |
| k. Farmers Home Administration Homeownership Program (Section 502) | 44.6 | 37.5 | 17.9 | 56 |
| l. Multifamily IDBs | 43.7 | 45.9 | 10.4 | 183 |
| m. Low Income Public Housing Program (Construction) | 43.6 | 44.7 | 11.7 | 257 |
| n. Single Family MRBs | 42.0 | 46.0 | 12.1 | 174 |
| o. Rehabilitation Loan Program (Section 312) | 41.5 | 43.8 | 14.7 | 265 |
| p. FmHA Rural Rental Housing Program (Section 515) | 40.6 | 43.8 | 15.6 | 32 |
| q. Flexible Subsidy Program (Troubled Public Housing Projects | 40.0 | 43.6 | 16.4 | 55 |
| r. Urban Homesteading Program | 36.6 | 43.0 | 20.4 | 93 |

| | Highly cost effective; great benefit for each dollar spent | Moderately cost effective; moderate benefit for each dollar spent | Not cost effective; little benefit per dollar | Number of Respondents (N) |
|---|---|---|---|---|
| s. Section 8 - Newly Constructed Housing | 32.8% | 50.2% | 17.0% | 271 |
| t. Section 236 (Multi-family (Rental) | 25.9 | 60.4 | 13.7 | 197 |
| u. Section 235 and 235 Revised (Single-Family) | 23.4 | 61.7 | 14.9 | 188 |
| v. Other (Specify) ____________ | 85.0 | 15.0 | 0.0 | 20 |

6. Of all the Federally aided programs listed above, which are the most cost-effective in your jurisdiction? (N = 444 for each of the first three columns. N = 444 for each row in the fourth column.)

| | First Choice | Second Choice | Third Choice | % of Cities Selecting Items as First, Second, or Third Choice |
|---|---|---|---|---|
| a. CDBG | 43.7% | 18.0% | 11.3% | 73.0% |
| b. Section 8 - Existing Housing | 17.8 | 17.8 | 11.5 | 47.1 |
| c. Low Income Public Housing Program (Construction) | 4.7 | 2.9 | 4.5 | 12.2 |
| d. Public Housing Operating Subsidy Program | 4.1 | 5.6 | 5.9 | 15.5 |
| e. Rental Rehabilitation Grants | 3.6 | 14.6 | 9.7 | 27.9 |
| f. Urban Development Action Grant Program | 3.6 | 4.1 | 3.4 | 11.0 |

| | First Choice | Second Choice | Third Choice | % of Cities Selecting Items as First, Second, or Third Choice |
|---|---|---|---|---|
| g. Section 8 - Rehabilitation Housing | 3.4% | 4.3% | 4.7% | 12.4% |
| h. Section 202 (Elderly and Handicapped) | 2.5 | 4.1 | 8.1 | 14.6 |
| i. Multifamily IDBs | 2.5 | 2.5 | 2.0 | 7.0 |
| j. Public Housing Modernization Program | 2.3 | 4.1 | 5.2 | 11.5 |
| k. Section 8 - Newly Constructed Housing | 1.8 | 3.8 | 4.7 | 10.4 |
| l. Rehabilitation Loan Program (Section 312) | 1.6 | 3.6 | 4.1 | 9.2 |
| m. Housing Vouchers | 0.9 | 1.8 | 2.3 | 5.0 |
| n. Farmers Home Administration Homeownership Program (Section 502) | 0.5 | 0.5 | 0.2 | 1.1 |
| o. Section 235 and 235 Revised (Single-Family) | 0.5 | 0.7 | 1.8 | 2.9 |
| p. Urban Homesteading Program | 0.2 | 0.7 | 1.8 | 2.7 |
| q. Flexible Subsidy Program (Troubled Public Housing Projects | 0.2 | 0.0 | 0.7 | 0.9 |
| r. HoDAG | 0.2 | 0.9 | 0.9 | 2.0 |
| s. Single Family MRBs | 0.2 | 1.4 | 3.6 | 5.2 |
| t. FmHA Rural Rental Housing Program (Section 515) | 0.0 | 0.5 | 0.5 | 0.9 |
| u. Section 236 (Multi-family (Rental) | 0.0 | 1.1 | 1.4 | 2.5 |
| v. Other (Specify) __________ | 0.2 | 0.5 | 0.9 | 1.6 |
| w. No response | 5.6 | 6.8 | 11.0 | 23.4 |

7. If funding for these three Federal programs (in previous question) were (or has been) terminated, how much of the money, if any, would likely be replaced from other sources?

|  | Little or no replacement | Less than half | More than half | Number of Respondents |
|---|---|---|---|---|
| First: | 83.0% | 14.8% | 2.2% | 405 |
| Second: | 87.0 | 11.0 | 2.0 | 391 |
| Third: | 87.6 | 10.4 | 1.9 | 364 |

8. Which of the following best characterizes your jurisdiction's relationship with the local housing authority? (N = 444)

1. The agency is a separate city entity with its own board. . . . . 56.8%
2. The agency is a separate entity responsible directly to the mayor or city manager. . . . . . . . . . . . . . . . . . . . . . 8.6%
3. Public housing is not a city agency but countywide . . . . . . . 19.4%
4. Other (briefly describe) . . . . . . . . . . . . . . . . . . . 15.4%

9. Are any city dollars (including CDBG) used in your public housing program? (N = 444)

1. No . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 51.4%
2. Yes, but a limited amount and only for special service programs . . . . . . . . . . . . . . . . . . . . . . . . 26.1%
3. Yes, significant support for a variety of services . . . . . . . 8.8%
4. Other (explain) ______________________________ . . . . . . 13.8%

10. What statement best describes your jurisdiction's relationship with community-based organizations (CBOs) as they relate to housing and community development? (N = 444)

1. No relationship. . . . . . . . . . . . . . . . . . . . . . . . 20.7%
2. CBOs play a minor role and receive no grants or contracts from the city. . . . . . . . . . . . . . . . . . . . . . . . 26.8%
3. CBOs have a number of grants or contracts for very specific activities in the city's housing and CD program. . . . . . . . . 31.1%

4. Several CBOs not only have grants and contracts for specific city-defined tasks but also get general support for their own projects . . . . . . . . . . . . . . . . . . . . . . . . . 13.3%
5. CBOs and other non-profit groups are the major means of implementation of city housing programs. . . . . . . . . . . . . 3.8%
6. Other . . . . . . . . . . . . . . . . . . . . . . . . . . . . 4.3%

## Appendix C

## List of Cities that Responded to NLC's Housing Survey 1986

**Alabama**

Anniston
Birmingham
Dothan
Enterprise
Florence
Gadsden
Mobile
Tuscaloosa

**Arizona**

Casa Grande
Flagstaff
Paradise Valley
Phoenix
Scottsdale
Sierra Vista
Tempe
Tucson

**Arkansas**

Fort Smith
Jacksonville
North Little Rock
Pine Bluff

**California**

Alameda
Anaheim
Antioch
Bellflower
Carson
Chico
Chula Vista
Claremont
Concord
Daly City
El Cajon
Escondido
Eureka
Fremont
Garden Grove
Glendale
Hawthorne
Hayward
Huntington Beach
Inglewood
Irvine
Lakewood
Livermore
Lompoc
Lynwood
Modesto
Monterey
Mountain View
National City
Oceanside
Orange
Oxnard
Palmdale
Palo Alto
Pasadena
Pico Rivera
Pleasant Hill
Pomona
Porterville
Rancho Cucamonga
Redding
Redondo Beach
Redwood City
Riverside
Salinas
San Bernardino
San Diego
San Francisco
Santa Ana
Santa Barbara
Santa Cruz
Santa Monica
Seaside
Thousand Oaks
Tulare
Turlock
West Covina
Whittier
Woodland

**Colorado**

Arvada
Aurora
Boulder
Colorado Springs
Denver
Greeley
La Junta
Lakewood
Pueblo
Westminster

**Connecticut**

Danbury
East Hartford

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**Connecticut**

East Haven
Fairfield
Greenwich
Hartford
Meriden
New London
Norwalk
Stamford
Torrington
West Haven
Winchester

**District of Columbia**

Washington, DC

**Delaware**

Wilmington

**Florida**

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Bradenton
Cape Coral
Cocoa
Daytona Beach
Fort Myers
Hialeah
Hollywood
Melbourne
Miami Beach
Naples
Ocala
Orlando
Ormond Beach
Panama City
Sarasota
South Daytona
Tampa
Titusville
West Palm Beach
Winter Haven

**Georgia**

Albany
Augusta
Brunswick
Columbus
Macon
Marietta
Savannah
Warner Robins

**Hawaii**

Honolulu

**Idaho**

Boise City
Pocatello

**Illinois**

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Bloomington
Blue Island
Champaign
Decatur
Des Plaines
Gurnee
Joliet
Moline
Normal
Paris
Peoria
Rantoul
Rock Island
Skokie
Springfield
Urbana

**Indiana**

Bloomington
Elkhart
Evansville
Indianapolis
Lafayette
Mishawaka
New Albany
South Bend
West Lafayette

**Iowa**

Burlington
Cedar Falls
Cedar Rapids
Davenport
Des Moines
Iowa City
Waterloo

### Kansas

Atchison
Leavenworth
Olathe
Topeka

### Kentucky

Covington
Franklin
Louisville
Owensboro

### Louisiana

Houma
Kenner
Lafayette
Lake Charles
Monroe
New Orleans
Shreveport
Westwego

### Maine

Brewer
Lewiston
Portland

### Maryland

Baltimore
Cumberland
Hagerstown

### Massachusetts

Attleboro
Boston
Cambridge
Fitchburg
Haverhill
Lynn
New Bedford
Newton
Northampton
Pittsfield
Salem
Springfield
Waltham

### Michigan

Dearborn Heights
Detroit
Farmington Hills
Flint
Grand Rapids
Holland
Lansing
Lincoln Park
Livonia
Monroe
Muskegon
Port Huron
Portage
Saginaw
Taylor
Westland
Wyoming

### Minnesota

Albert Lea
Bloomington
Mankato
Minneapolis
Moorhead
Rochester
Roseville
St. Paul

### Mississippi

Biloxi
Meridian
Pascagoula

### Missouri

Columbia
Florissant
Kansas City
Springfield
St. Joseph
St. Louis
St. Peters

### Montana

Billings
Great Falls

### Nebraska

Lincoln
Omaha

### Nevada

Henderson
Reno

### New Hampshire

Rochester

### New Jersey

Clifton
Hamilton
Irvington
Long Branch
Millville
New Brunswick
Newark
Old Bridge
Orange
Parsippany
Perth Amboy
Sayreville
Toms River
Trenton
Vineland

### New Mexico

Albuquerque
Las Cruces
Santa Fe

### New York

Albany
Binghamton
Buffalo
New Rochelle
New York
Newburgh
Port Jervis
Rochester
Rome
Syracuse
Troy
White Plains

### North Carolina

Asheville
Burlington
Charlotte
Concord
Conover
Durham
Fayetteville
Goldsboro
Greensboro
Hickory
High Point
Lenoir
Raleigh
Whiteville
Winston-Salem

### North Dakota

Bismarck
Fargo

### Ohio

Akron
Brook Park
Cleveland
Cleveland Heights
Columbus
Dayton
Eastlake
Elyria
Euclid
Kent
Kettering
Lakewood
Lima
Lorain
Mansfield
Marietta
Newark
Ravenna
Springfield
Warren

### Oklahoma

Guymon
Lawton
Midwest City
Norman

**Oklahoma**

Oklahoma City
Shawnee
Tulsa

**Oregon**

Eugene
Grants Pass
Medford
Newberg
Portland
Springfield
The Dalles

**Pennsylvania**

Allentown
Altoona
Ardmore
Chester
Erie
Harrisburg
Lancaster
Levittown
McKeesport
New Castle
Philadelphia
Pittsburgh
State College
Upper Darby
Wilkes-Barre
Williamsport
York

**Puerto Rico**

Arecibo
Caguas
Carolina
San Juan
San Sebastian

**Rhode Island**

Lincoln
Providence

**South Carolina**

Charleston
Columbia
Greenville
North Charleston
North Myrtle Beach
Rock Hill
Spartanburg

**South Dakota**

Rapid City
Sioux Falls

**Tennessee**

Bristol
Chattanooga
Clarksville
Dayton
Johnson City
Kingsport
Knoxville
Memphis
Murfreesboro
Nashville
Pulaski

**Texas**

Abilene
Arlington
Austin
Baytown
Brownsville
Bryan
College Station
Commerce
Dallas
Edinburg
El Paso
Galveston
Grand Prairie
Harlingen
Laredo
Longview
Lubbock
McAllen
Mesquite
Odessa
Pasadena
Plano
Port Arthur
San Angelo
San Antonio
Texarkana
Tyler
Victoria

**Texas**

Waco
Wichita Falls

**Utah**

Ogden
Provo
Salt Lake City
Sandy City

**Virginia**

Alexandria
Hampton
Hopewell
Newport News
Norfolk
Richmond
Roanoke
Virginia Beach

**Vermont**

Burlington
Rutland

**Washington**

Auburn
Bellevue
Bellingham
Bremerton
Everett
Kennewick
Olympia
Richland
Seattle
Spokane
Tacoma
Vancouver
Yakima

**West Virginia**

Charleston
Parkersburg
Weirton

**Wisconsin**

Appleton
Beloit
Eau Claire
Green Bay
Kenosha
Milwaukee
Neenah
Oshkosh
Racine
Wauwatosa

**Wyoming**

Douglas

Senator **Cranston**. Thank you very much. Thanks for the forcefulness and brevity of your statement. I appreciate it very, very much. We will explore with interest the statement you submitted for the record.

Our next witness is Council member Ruth Keeton of Howard County, Columbia, MD, for the National Association of Counties. We welcome you.

## STATEMENT OF RUTH KEETON, COUNCIL MEMBER, HOWARD COUNTY, COLUMBIA, MD, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES

Ms. **Keeton**. Thank you. First, I want to express my appreciation and I'm sure our National Association of Counties [NACo] support for your introductory comments that indicate a commitment to really put us back with you as we, as counties work hard to do our very best to keep housing available for the people who have such great needs at this time. We wish you well in your efforts.

Senator **Cranston**. Thank you very, very much.

Ms. **Keeton**. County officials were alarmed last year that Congress failed to pass housing and community development reauthorization legislation. The escalating growth in homelessness and the prevailing lack of available housing and our long waiting lists in urban and rural counties is a reflection of the housing crisis and need for your action.

While encouraged by movement in Congress to move at this time, county officials oppose the administration's fiscal 1988 budget proposals for the Department of Housing and Urban Development [HUD], and the Farmers Home Administration. Our county has used effectively, both in the rural and urban areas, as have counties across the country, both of those resources. We view the President's budget as an attempt to dismantle Federal tools which have made it possible for us to respond to the urgent needs of our poorest citizens.

### CDBG FUNDS

We want to focus especially on CDBG funds and programs. It's the cornerstone development tool used by county officials for housing rehabilitation, public facilities construction, and jobs creation. Our county has used all of its CDBG funds in recent years from the small cities program for housing rehabilitation in areas where it was desperately needed.

The President proposes a 14-percent reduction in CDBG through rescission of $375 million of the $3 billion appropriated for this program in fiscal 1987. The administration also proposes that CDBG be funded at the reduced level of $2.625 billion for fiscal year 1988. NACo firmly opposes these proposed cuts. We feel that the $3.4 billion in the omnibus housing bill introduced in the House by Representative Gonzalez is more reflective of the need and begins to restore, as you are eager to have happen, funds to their previous funding levels.

In addition to funding, NACo opposes legislative proposals being considered by the administration to target CDBG funds on the basis of average per capita grant. Under this scheme, an urban county would lose its entitlement status if its CDBG is less than half the average grant per capita. You will be reviewing how that's computed. Roughly half of the urban counties would no longer receive CDBG entitlement funds.

Out of the 116 counties that now participate, 60 would be eliminated. We urge you to look very carefully at that requirement and to review its impact on present participants.

For example, Cook County, IL, would lose entitlement status even though it has in absolute numbers more low- and moderate-income citizens than many other entitlement communities. More importantly, a per capita formula overlooks the existence of pockets of poverty in urban counties and the tenacious effort of county officials to direct funds to their citizens with the greatest needs. HUD reports document that roughly 90 percent or more of the CDBG entitlement funds benefit low- and moderate-income people. And to have that modified and elimination of that many major urban communities is something that we ask you seriously to consider.

We understand that the administration may seek legislative change to permit new construction as an eligible CDBG activity. County officials oppose this. The only instance in which we might defer from this position would be if new and sufficient money was appropriated in an amount commensurate with the new activity. New construction would divert funds from the current activities.

For example, my neighboring county, Baltimore County, would lose its entitlement status under a per capita formula. They've used their funds to rehabilitate rental and owner-occupied low- and moderate-income housing, construct centers for the handicapped and senior citizens, grants for nonprofit organizations to work with battered spouses and provide shelters for the homeless, and to make public works improvements in an isolated area where there was a high concentration of low-income residents. All of these programs were very dependent on those resources.

To go back to the proposed reductions in grant funds, we do support new construction, but we would hope that it would only be if it's a supplement, and eligible activities cannot substitute for housing production money that the administration seeks to shift or rescind from public housing, Farmers Home Administration, section 8, housing development grants and rental rehabilitation.

We find unacceptable the administration's reliance on vouchers to house the Nation's poor. County officials disapprove of the President's effort to block the construction of public housing and to reduce funds for public housing operating subsidies and modernization. Farmers Home Administration housing and development programs must be maintained to respond to the unique conditions and critical shortage of housing in rural counties and in the rural portions of all of our counties.

### NEED A 3-YEAR REAUTHORIZATION OF CDBG FUNDS

Mr. Chairman, when this committee marks up an omnibus housing bill, NACo urges that it contain a 3-year reauthorization of CDBG funds and other housing and development programs. You were saying it really helps you to plan and to budget for the counties' roles too. It would give added assurance of the programs continuing existence. This is particularly critical for urban counties which, in order to qualify for the CDBG entitlement funds, must secure 3-year cooperation agreements from all of the local governments in their jurisdictions. The ability of counties to secure those 3-year agreements are directly dependent on the duration of the resources that they are committed to sharing in.

NACo is concerned about urban counties which are threatened with the loss of their entitlement status because central cities which now are part of these urban counties can no longer elect to defer their entitlement status. In 1983, HUD determined that some cities had become central cities on the basis of 1980 census data. San Joaquin and Sonoma Counties, CA, St. Clair and Madison Counties IL, and Hudson County, NJ were in jeopardy of losing their entitlement status unless permitted to include newly designated central cities based on the 1980 census in order to meet the 200,000 population threshold. These counties were able to continue their entitlement status for 3 years because of a special provision in the Housing and Urban-Rural Recovery Act of 1983. That provision allowed newly designated central cities to defer their entitlement status for 3 years, up through 1986.

Seven counties now face a similar situation of not having the required 200,000 minimum unless permitted to count the population of their central cities. Some central cities have indicated they would like to continue to participate under the urban county CDBG Program. NACo will work with your committee to make permanent, instead of time limited, the provision permitting a central city to defer its entitlement status as long as it continues to have the population.

There is a final issue I would like to address with respect to the CDBG Program. Urban counties are faced with meeting a threshold population of 200,000 and we just ask that the 3-year opt-in period be extended and counties dealt with successfully as the time expected to develop a targeted program may serve only a portion of the county otherwise.

Mr. Chairman, we support changes in the urban development Action grants, UDAG grants, selection criteria as contained in this bill and hope that those provisions will be part of the omnibus housing bill. We also support the provisions to provide shelter for the homeless and the expansion of those provisions as submitted here.

Maryland has done a careful study and a thorough one about their shelter needs and it's urgent that we have as many resources as possible to work and to help those families to self-sufficiency over a longer period of support for the homeless.

NACo looks forward to working with this Subcommittee in addressing a range of issues which will achieve victory in combatting the housing crisis. We will work to ensure that this Nation truly recommits itself to the goal—and the goal you've expressed today—of providing decent, safe, and affordable housing for all its people.

Thank you for the opportunity to come.

[The complete prepared statement of Ruth Keeton follows:]

## URBAN COUNTIES THAT RESPONDED TO NLC'S HOUSING SURVEY 1986

1. Maricopa County, Arizona
2. Pima County, Arizona
3. Contra Costa County, Calf.
4. Los Angeles County, Calf.
5. Riverside County, Calf.
6. San Bernardino County, Calf.
7. San Diego County, Calf.
8. San Mateo County, Calf.
9. Santa Clara County, Calf.
10. Sonoma County, Calf.
11. New Castle County, Delaware
12. Broward County, Florida
13. Dade County, Florida
14. Duval County, Florida
15. Hillsborough County, Florida
16. Orange County, Florida
17. Palm Beach County, Florida
18. Pinellas County, Florida
19. Polk County, Florida
20. Volusia County, Florida
21. DeKalb County, Georgia
22. Fulton County, Georgia
23. Du Page County, Illinois
24. Lake County, Illinois
25. Jefferson Parish, Louisiana
26. Baltimore County, Maryland
28. Oakland County, Michigan
29. Hennepin County, Minnesota
30. Bergen County, New Jersey
31. Morris County, New Jersey
32. Union County, New Jersey
33. Monroe County, New York
34. Cuyahoga County, Ohio
35. Franklin County, Ohio
36. Montgomery County, Ohio
37. Multnomah County, Oregon
38. Chester County, Penn.
39. Delaware County, Penn.
40. Montgomery County, Penn.
41. Greenville County, SC
42. Tarrant County, Texas
43. Arlington County, Virginia
44. Fairfax County, Virginia
45. Pierce County, Washington
46. Milwaukee County, Wisconsin
47. Salt Lake County, Utah

NATIONAL
ASSOCIATION
*of*
COUNTIES

*440 First St. NW, Washington, DC 20001*
*202/393-6226*

STATEMENT OF

THE HONORABLE RUTH KEETON

COUNCILMEMBER, HOWARD COUNTY, MARYLAND

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

ON BEHALF OF

THE NATIONAL ASSOCIATION OF COUNTIES

WASHINGTON, D.C.

FEBURARY 17, 1987

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GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. I AM RUTH KEETON, MEMBER OF THE HOWARD COUNTY MARYLAND COUNCIL, AND CHAIR OF THE HOUSING SUBCOMMITTEE FOR THE NATIONAL ASSOCIATION OF COUNTIES.

AT THE OUTSET, I WANT TO APPLAUD YOU, MR. CHAIRMAN, FOR THE SPEED AT WHICH YOU ARE UNDERTAKING WORK ON AN OMNIBUS HOUSING BILL. COUNTY OFFICIALS WERE ALARMED LAST YEAR THAT CONGRESS FAILED TO PASS HOUSING AND COMMUNITY DEVELOPMENT REAUTHORIZATION LEGISLATION. THE ESCALATING GROWTH IN HOMELESSNESS IN URBAN AND RURAL COUNTIES IS REFLECTIVE OF A HOUSING CRISIS AND NEED FOR FEDERAL LEGISLATION WHICH ADDRESSES COMMUNITY REVITALIZATION THROUGHOUT THE NATION.

WHILE ENCOURAGED BY MOVEMENT IN CONGRESS TO ADDRESS HOUSING AND COMMUNITY DEVELOPMENT LEGISLATION, COUNTY OFFICIALS OPPOSE THE ADMINISTRATION'S FISCAL 1988 BUDGET PROPOSALS FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) AND THE FARMERS HOME ADMINISTRATION (FmHA). WE VIEW THE PRESIDENT'S BUDGET AS AN ATTEMPT TO DISMANTLE FEDERAL TOOLS WITH WHICH COUNTY OFFICIALS RESPOND TO URGENT NEEDS OF OUR POOREST CITIZENS.

COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG) IS THE CORNERSTONE DEVELOPMENT TOOL USED BY COUNTY OFFICIALS FOR HOUSING REHABILITATION, PUBLIC FACILITIES CONSTRUCTION AND JOBS CREATION. HOWARD COUNTY USES ALL CDBG FUNDS IT RECEIVES THROUGH THE SMALL CITIES PROGRAM FOR HOUSING REHABILITATION FOR LOW INCOME

FAMILIES.

THE PRESIDENT PROPOSES A 14 PERCENT REDUCTION IN CDBG THROUGH RESCISSION OF $375 MILLION OF THE $3 BILLION APPROPRIATED FOR THIS PROGRAM IN FISCAL 1987. THE ADMINISTRATION ALSO PROPOSES THAT CDBG BE FUNDED AT THE REDUCED LEVEL OF $2.625 BILLION FOR FISCAL 1988. NACo FIRMLY OPPOSES THESE PROPOSED CUTS. WE FEEL THAT THE $3.4 BILLION FOR CDBG IN THE OMNIBUS HOUSING BILL INTRODUCED BY REPRESENTATIVE HENRY B. GONZALEZ, H.R. 4, IS MORE REFLECTIVE OF THE NEED AND BEGINS TO RESTORE CDBG TO ITS HISTORIC FUNDING LEVEL.

IN ADDITION TO FUNDING, NACo OPPOSES LEGISLATIVE PROPOSALS BEING CONSIDERED BY THE ADMINISTRATION TO TARGET CDBG FUNDS ON THE BASIS OF AVERAGE PER CAPITA GRANT. UNDER THIS SCHEME, AN URBAN COUNTY WOULD LOSE ITS ENTITLEMENT STATUS IF ITS CDBG GRANT IS LESS THAN HALF THE AVERAGE GRANT PER CAPITA. ROUGHLY HALF OF THE URBAN COUNTIES WOULD NO LONGER RECEIVE CDBG ENTITLEMENT FUNDS.

NACo OPPOSES THIS APPROACH FOR SEVERAL REASONS. WHILE IT WOULD BE EASY FOR HUD TO ELIMINATE ENTITLEMENT COMMUNITIES, A PER CAPITA APPROACH IN NO WAY MEASURES THE NEED FOR CDBG IN AFFECTED URBAN COUNTIES. FOR EXAMPLE, COOK COUNTY, ILLINOIS WOULD LOSE ENTITLEMENT STATUS, EVEN THOUGH IT HAS, IN ABSOLUTE NUMBERS, MORE LOW AND MODERATE INCOME CITIZENS THAN MANY OTHER ENTITLEMENT COMMUNITIES. MORE IMPORTANTLY, A PER CAPITA FORMULA OVERLOOKS THE EXISTENCE OF POCKETS OF POVERTY IN URBAN COUNTIES AND THE TENACIOUS EFFORT OF COUNTY OFFICIALS TO DIRECT FUNDS TO THEIR CITIZENS WITH THE GREATEST NEED FOR COMMUNITY REVITALIZATION. HUD REPORTS DOCUMENTS THAT ROUGHLY 90 PERCENT OR MORE OF CDBG ENTITLEMENT FUNDS BENEFIT LOW AND MODERATE INCOME PEOPLE.

BALTIMORE COUNTY, MARYLAND IS A NEIGHBORING COUNTY TO MINE WHICH WOULD LOSE ITS ENTITLEMENT STATUS UNDER A PER CAPITA FORMULA. IN THAT COUNTY, CDBG HAS BEEN USED TO REHABILITATE RENTAL AND OWNER-OCCUPIED LOW AND MODERATE INCOME HOUSING, TO CONSTRUCT CENTERS FOR THE HANDICAPPED AND SENIOR CITIZENS, AND TO PROVIDE GRANTS TO NONPROFIT ORGANIZATIONS TO WORK WITH BATTERED SPOUSES AND PROVIDE SHELTERS FOR THE HOMELESS. BALTIMORE COUNTY HAS USED CDBG TO MAKE PUBLIC WORKS IMPROVEMENTS IN AN ISOLATED TARGET AREA WITH A PARTICULARLY HIGH CONCENTRATION OF LOW AND MODERATE INCOME RESIDENTS. WATERS AND SEWERS WERE PROVIDED FOR THIS AREA WHERE NONE PREVIOUSLY EXISTED ALONG WITH ROAD IMPROVEMENTS. COUNTY RESOURCES, ALONE, SIMPLY ARE NOT SUFFICIENT TO RESPOND TO THESE VERY BASIC COMMUNITY DEVELOPMENT NEEDS.

WE UNDERSTAND THAT THE ADMINISTRATION MAY SEEK LEGISLATIVE CHANGE TO PERMIT NEW CONSTRUCTION AS AN ELIGIBLE CDBG ACTIVITY. THE NATION'S COUNTY OFFICIALS OPPOSE ANY NEW CDBG ELIGIBLE ACTIVITIES. THE ONLY INSTANCE IN WHICH WE MIGHT DIFFER FROM THIS POSITION WOULD BE IF NEW AND SUFFICIENT MONEY WAS APPROPRIATED IN AN AMOUNT COMMENSURATE WITH A NEW ACTIVITY. NEW CONSTRUCTION WOULD DIVERT FUNDS FROM CURRENT ACTIVITIES AT A TIME WHEN THE

ADMINISTRATION PROPOSES REDUCTIONS IN CDBG FUNDS. FURTHERMORE, MAKING NEW CONSTRUCTION AN ELIGIBLE CDBG ACTIVITY CANNOT SUBSTITUTE FOR HOUSING PRODUCTION MONEY THAT THE ADMINISTRATION SEEKS TO SHIFT OR RESCIND FROM PUBLIC HOUSING, THE FARMERS HOME ADMINISTRATION, SECTION 8, HOUSING DEVELOPMENT GRANTS AND RENTAL REHABILITATION.

WE FIND UNACCEPTABLE THE ADMINISTRATION'S RELIANCE ON VOUCHERS TO HOUSE THE NATION'S POOR. COUNTY OFFICIALS DISAPPROVE THE PRESIDENT'S EFFORT TO BLOCK THE CONSTRUCTION OF PUBLIC HOUSING AND TO REDUCE FUNDS FOR PUBLIC HOUSING OPERATING SUBSIDIES AND MODERNIZATION. FmHA HOUSING AND DEVELOPMENT PROGRAMS MUST BE MAINTAINED TO RESPOND TO THE UNIQUE CONDITIONS AND CRITICAL SHORTAGE OF HOUSING IN RURAL COUNTIES.

MR. CHAIRMAN, WHEN THIS COMMITTEE MARKS UP AN OMNIBUS HOUSING BILL, NACo URGES THAT IT CONTAIN A THREE YEAR REAUTHORIZATION OF CDBG AND OTHER HOUSING AND DEVELOPMENT PROGRAMS. A MULTI-YEAR REAUTHORIZATION WOULD GIVE ADDED ASSURANCE OF THE PROGRAMS' CONTINUING EXISTENCE. THIS IS PARTICULARLY CRITICAL FOR URBAN COUNTIES WHICH, IN ORDER TO QUALIFY FOR CDBG ENTITLEMENT FUNDS, MUST SECURE THREE YEAR COOPERATION AGREEMENTS WITH LOCAL GOVERNMENTS WITHIN THEIR JURISDICTIONS. THE ABILITY OF COUNTIES TO SECURE THREE YEAR AGREEMENTS INCREASES TO THE EXTENT THAT LOCAL GOVERNMENTS PERCEIVE THAT CDBG WILL EXIST THROUGHOUT THE DURATION OF THE COOPERATION PERIOD.

NACo IS CONCERNED ABOUT URBAN COUNTIES WHICH ARE THREATENED WITH LOSS OF THEIR ENTITLEMENT STATUS, BECAUSE CENTRAL CITIES WHICH NOW ARE PART OF THESE URBAN COUNTIES CAN NO LONGER ELECT TO DEFER THEIR ENTITLEMENT STATUS. IN 1983, HUD DETERMINED THAT SOME CITIES HAD BECOME CENTRAL CITIES ON THE BASIS OF 1980 CENSUS DATA. SAN JOAQUIN AND SONOMA COUNTIES IN CALIFORNIA, ST. CLAIR AND MADISON COUNTIES IN ILLINOIS, AND HUDSON COUNTY, NEW JERSEY WERE IN JEOPARDY OF LOSING THEIR ENTITLEMENT STATUS UNLESS PERMITTED TO INCLUDE NEWLY DESIGNATED CENTRAL CITIES IN ORDER TO MEET THE 200,000 POPULATION THRESHOLD. THESE COUNTIES WERE ABLE TO CONTINUE THEIR ENTITLEMENT STATUS, BECAUSE OF A SPECIAL PROVISION IN THE HOUSING AND URBAN-RURAL RECOVERY ACT OF 1983. THAT PROVISION ALLOWED NEWLY DESIGNATED CENTRAL CITIES TO DEFER THEIR ENTITLEMENT STATUS FOR THREE YEARS, 1984, 1985, AND 1986, SO THAT THEY COULD REMAIN WITH THE URBAN COUNTY.

THESE COUNTIES NOW FACE A SIMILAR SITUATION OF NOT HAVING THE REQUIRED 200,000 MINIMUM UNLESS PERMITTED TO COUNT THE POPULATION OF THEIR CENTRAL CITIES. EVEN IF THE COUNTY'S POPULATION EXCEEDS 200,000, SOME CENTRAL CITIES HAVE INDICATED THAT THEY WOULD LIKE TO CONTINUE TO PARTICIPATE UNDER THE URBAN COUNTY CDBG PROGRAM. NACo WILL WORK WITH THIS COMMITTEE TO MAKE PERMANENT, INSTEAD OF TIME-BOUND, THE PROVISION PERMITTING A CENTRAL CITY TO DEFER ITS ENTITLEMENT STATUS AS LONG AS IT CONTINUES TO HAVE ITS POPULATION INCLUDED IN THE URBAN COUNTY.

THERE IS A FINAL ISSUE I WOULD LIKE TO ADDRESS WITH RESPECT TO THE CDBG PROGRAM. URBAN COUNTIES ARE FACED WITH MEETING A THRESHOLD POPULATION OF 200,000 WHICH IS LARGELY DEPENDENT ON THE COOPERATION OF A NUMBER OF LOCAL UNITS OF GOVERNMENT. THE THREE YEAR OPT-IN PERIOD IS HELPFUL. HOWEVER, COUNTIES ARE STILL FACED WITH THE POLITICAL PROBLEM OF SOLICITING PARTICIPATION FROM CITIES, TOWNS, AND TOWNSHIPS WHILE AT THE SAME TIME EXPECTED TO DEVELOP A TARGETED PROGRAM WHICH MAY SERVE ONLY A PORTION OF THE COUNTY. COUNTIES HAVE DEALT SUCCESSFULLY WITH THIS DILEMMA BY AND LARGE, BUT COULD USE SOME RELIEF FROM CONGRESS.

WE FEEL THAT THE QUALIFICATION PROCESS SHOULD BE SEPARATED FROM THE FUNDING PROCESS. UNDER THESE CONDITIONS, COUNTIES WOULD AUTOMATICALLY QUALIFY FOR CDBG, IF THEY HAVE A POPULATION OF 200,000 OUTSIDE ANY METROPOLITAN CITY. FUNDING LEVELS WOULD BE DETERMINED SEPARATELY BASED ON THE NUMBER OF COOPERATING JURISDICTIONS AND THE POPULATION OF THE UNINCORPORATED AREA.

MR. CHAIRMAN, WE SUPPORT CHANGES IN THE URBAN DEVELOPMENT ACTION GRANTS SELECTION CRITERIA AS CONTAINED IN S.2507, AND HOPE THAT THOSE PROVISIONS WILL BE PART OF THE OMNIBUS HOUSING BILL. WE ALSO SUPPORT THE PROVISIONS TO PROVIDE SHELTER FOR THE HOMELESS AND THE EXPANSION OF THESE PROVISIONS IN H.R. 558.

NACo LOOKS FORWARD TO WORKING WITH THIS SUBCOMMITTEE IN ADDRESSING A RANGE OF ISSUES WHICH WILL ACHIEVE VICTORY IN COMBATING THE HOUSING CRISIS. WE WILL WORK TO ENSURE THAT THIS NATION TRULY RECOMMITS ITSELF TO THE GOAL OF PROVIDING DECENT, SAFE AND AFFORDABLE HOUSING FOR ALL CITIZENS.

Senator CRANSTON. Thank you very much. I would like to remind witnesses again to watch the red light that indicates when the 5 minutes are up.

Our final witness on this panel is Richard Geltman, Committee on Economic Development and Technological Innovation, of the National Governors' Association. We welcome you.

## STATEMENT OF RICHARD GELTMAN, STAFF DIRECTOR, COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGICAL INNOVATION, NATIONAL GOVERNORS' ASSOCIATION

Mr. GELTMAN. Thank you, Mr. Chairman. Thank you for inviting me as a representative of the National Governors' Association to testify before you on the reauthorization of housing and community development legislation.

In my oral statement this morning I will briefly touch upon five points—the need for housing support, the State role in housing, the Federal role in housing, an adequate level of housing funding, and reauthorization and possible consolidation of the Federal community and economic development programs. I will only highlight my written testimony.

Since 1975—and what I want to do is just briefly mention a couple of facts, although the statement is a little bit longer than that, because I think in light of the budget cuts it's important to justify why we ought to go ahead and put a significant amount of money into housing.

It seems to me that since 1975 rental costs increases have outpaced increases in income by 11 percent, real income has actually declined an average of 4 percent for the poorest fifth of households. As a result, the rent burden, or the percentage of income spent on rent, rose from a median of 48 percent in 1978 to 58 percent in 1983 among renters with incomes below $10,000.

### PRIVATE MARKET DOES NOT MEET THE DEMAND FOR LOW-INCOME HOUSING

Now while the private market does an efficient job in supplying housing for most of the country's population—in fact, over 60 million housing units have been built since World War II—I think the thing that ought to be significant for this committee is that it does not meet the demand for low-income housing without a governmental subsidy, a subsidy that comes primarily from the Federal Government.

The number of additional subsidized units authorized annually has declined by two-thirds since 1979 to a level sufficient to meet only a quarter of the growth in eligible households.

That is not to say that we have in fact decreased the amount of housing support over a period a time or decreased the number of units of housing being supported with Federal funds; we've just not increased it to the level of the need that we have in this country.

Despite evidence of a growing poor population and a growing backlog of low-income housing needs, the Federal Government is cutting back on its housing subsidy programs for low-income families.

This decrease in direct expenditures has been matched on the tax expenditure side and I think that's going to have some very significant impact, including a decline in the market value of much rental real estate, a decline in new housing development until vacancy rates drop and rents rise, and an increase in rents over 5 years in the range of 12 to 20 percent.

When one combines Federal reduced investment in housing with the loss of some rental housing from abandonment, destruction, decay, and conversion, and the withdrawal of a significant number of privately owned, federally assisted units for moderate-income tenants under the pre-1974 section 221(d)(3) and section 236 programs between now and 1995, the formula for the creation of major housing problems for the poor has been created.

States, which have up until now not been major participants in the provision of low-income housing, may provide some new assistance, but they are unlikely to fill even a small portion of a widening housing gap for low- and moderate-income citizens. Continued Federal assistance is therefore needed.

If the private marketplace does not take care of low-income housing, the Federal Government withdraws, and the State can't make up the difference, we're creating significant problems over a period of time for all of us.

The National Governors' Association released at the end of August 1986, a report on a possible greater State role, called "Decent Affordable Housing For All." I would like to leave a couple of these reports for you and I would like, with your permission, to have it submitted for the record, Mr. Chairman.

[Report will be held in committee files.]

Only recently have States gotten involved in housing programs. A recent compendium of housing initiatives in 42 States found that one-third of the 153 programs reported have started only since 1985. So the States have not been actively involved. In fact, what we've had is primarily a Federal to local governmental role. States are only now starting to get involved and it's going to take us some time to do so. We need your help to get us increasingly involved and as the problems are created somebody is going to have to take care of them. Unfortunately, States are not going to have the wherewithal to do it at the same level the Federal Government has been able to do up to now.

In fact, you can't look to the States for a heck of a lot of help right now. There are 22 States which are hurting. They have already cut budgets in this year and this year is only a little over half-way through. While the economies of the Eastern States and the Western States are doing fairly well, the heartland of the United States is suffering very, very badly. Connecticut, Massachusetts and California are doing considerably better than Missouri, Minnesota, Wisconsin and all the way down through the oil- producing States. I think you can't look at them and overall say, from your own perspective, "Things are going well and say that's a reason for cutting back on housing programs." In fact, you have to take a look on a State-by-State basis and I think there are going to be significant numbers of states that are going to be hurting. Only the Federal Government can accommodate the shifts and the differences between States.

Let me just say, in closing, that we support a significant increase in a funding level above that which the administration has requested. We would go back to the fiscal 1986 level, adjusted for half the rate of inflation. I think that is a reasonable level which responds to the needs to cut back under Gramm-Rudman.

We also think that housing production programs are needed. We cannot just go forward with section 8 certificates and housing vouchers. There are many places in the country, particularly in the Northeast, where housing is very short and the marketplace is not providing for the poor and so the Federal production program is needed.

Finally, you ought to consider very carefully given the cutbacks in community and economic development programs, the possibility of consolidating a number of programs—UDAG, CDBG, and even consider some programs which may be beyond the jurisdiction of this committee—the EDA programs, the Farmers Home programs, the Business Industrial Communities Facilities program—in order to have a more viable, more flexible instrument for Federal and State policy making.

Thank you, Mr. Chairman.

[The complete prepared statement of Richard B. Geltman follows:]

### ADMINISTRATION'S PROPOSALS EFFECTS

Senator **Cranston**. Thank you very, very much.

Let me first ask if any of you feel that any of the administration's proposals are urgently needed and should be included in the bill that we are going to report? In a nutshell, what would be the impact on your city did you have a thought on that, Mr. Althaus?

Mr. **Althaus**. All I was going to say, Mr. Chairman, was that in the housing field, I don't object to the voucher approach as part of a multifaceted approach. One of the problems with it is in areas where there simply aren't the housing units. So I don't think we're saying that everything is wrong.

On CDBG, we don't object to $2.6 billion as part of $3.4 billion. So there are components that are partial responses.

Senator **Cranston**. If we were to take all the administration's proposals and enact them, what would be the impact on the constituencies that you represent?

Mr. **Althaus**. Devastating in terms of our ability to deliver services, particularly in housing, to low- and moderate-income people. If I went to the people in the city and said, "We're going to close fire stations and cut back on police because we've got to keep these housing programs going," it would be extremely difficult. But that's what the choice would be. We couldn't do it.

Senator **Cranston**. Your summary word was devastating. Do any of you have a different adjective or comment?

Mr. **Roark**. I was thinking catastrophic. In a State like ours, where there are 234 municipalities, most of which are in the 1,000 to 5,000 population range, the absence of general revenue sharing as we are now in the process of going about our budgets means to these people, to many of our cities in West Virginia and throughout the country, the sidewalks, fire hydrants—it means police officers at night, it means cutbacks across-the-board in those areas. Those of us who are fortunate enough to go to capital outlay programs for fire trucks and police cars, we can cut those and not buy anything new. But the proposed reduction in CDBG, the another 12 percent that we're asked to take, and the continued assault on urban programs to balance the budget on the backs of cities makes no sense.

If the cities are strong, the counties are going to be strong, the States are going to be strong, and the country will be strong.

Senator **Cranston**. Thank you very much.

The committee will consider a bill similar to S. 2507 that was reported by the committee last year but was never enacted by the full Senate. Would you please give us your thoughts in writing if you have any within 1 week on what elements of that bill you feel should be revised, if any, and give us your thoughts if there are any provisions that were not in that bill that you would like to see in the bill that we report?

I thank you very much for being with us.

If the second panel would please come forward, our first witness is Thomas M. French, Jr., chairman of the board, BancBoston Mortgage Co., Inc., from Jacksonville, FL, and president of the Mortgage Bankers Association. We welcome you. I want to remind you too that I hope you can summarize your statements in not more than 5 minutes and this red light will tell you when your 5 minutes are up.

## STATEMENT OF THOMAS M. FRENCH, JR., CHAIRMAN OF THE BOARD, BANCBOSTON MORTGAGE CO., INC., PRESIDENT, MORTGAGE BANKERS ASSOCIATION

Mr. FRENCH. Senator, as an ex-debater, I understand the nature of the lights and I will stop.

Senator CRANSTON. Thank you.

Mr. FRENCH. Mr. Chairman and members of the subcommittee, I am here primarily in my role as president of the Mortgage Bankers Association of America [MBA] and I would like to stress two things this morning.

First, is the urgent need for legislation to block this administration's continuing attacks on the Federal mortgage credit programs, and with particular immediacy, the proposed increase in the Ginnie Mae mortgage-backed security guaranty fee from 6 to 10 basis points set to take effect March 1.

The second is the need for a cohesive and long-term national housing policy. We at the Mortgage Bankers are particularly gratified at the chairman's espousal of the concept of a national housing policy and are gratified for his comments and those of Senator Dodd.

### INCREASE OF USER FEES

MBA is deeply concerned by provisions in the administration's fiscal year 1988 budget proposal that call for an increase of user fees and other restrictions on an array of Federal mortgage credit programs operated by FHA, VA, Ginnie Mae, Fannie Mae, and Freddie Mac.

These are not spending programs. I am cognizant of Senator Proxmire's statement, but our comment is that MBA and its members have supported the payment of adequate fees to cover operation of costs of all the Federal housing programs except the VA loan which is considered to be an entitlement. Current fees are already providing operating profits.

What we are talking about is our alarm at the administration's proposal to tax the Federal housing programs under the guise of user fees without any suggestion that the fees are based on actual risks inherent in insuring or guaranteeing the mortgages on low-, moderate-, and middle-income housing. For 6 years now, the administration has been trying to cripple or eliminate those self-supporting programs, and for 6 years, Congress has said no. The country, and particularly the home buyer, has become dependent on Congress for positive leadership in housing matters.

Perhaps most alarming, as I have mentioned, is the administration's recent announcement regarding the increase in the Ginnie Mae guarantee fee from 6 to 10 basis points.

What makes the increase so disturbing is the fact that it is unreasonable and without justification. Ginnie Mae operates an extraordinarily effective program on an actuarially sound basis. The agency currently administers a reserve fund with a balance in excess of $1.3 billion. Losses paid have been miniscule, amounting

**National Governors' Association**

**Bill Clinton**
Governor of Arkansas
Chairman

**Raymond C. Scheppach**
Executive Director

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TESTIMONY OF

RICHARD B. GELTMAN
STAFF DIRECTOR
COMMITTEE ON ECONOMIC DEVELOPMENT AND
TECHNOLOGICAL INNOVATION
NATIONAL GOVERNORS' ASSOCIATION

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

regarding

OMNIBUS HOUSING LEGISLATION

February 17, 1987

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Mr. Chairman:

I would like to open my remarks by thanking you for inviting a representative of the National Governors' Association to testify before you today on the reauthorization of housing and community development legislation. In my statement this morning I will address three subjects:

1. the need for federal housing support,
2. an adequate level of housing funding, and
3. reauthorization, and possible consolidation, of federal community and economic development programs.

THE NEED FOR FEDERAL HOUSING SUPPORT

The National Governors' Association believes the federal government has a continuing responsibility and role to play to ensure that our Nation's citizens, especially those of low- and moderate-income, are provided a decent home and a suitable living environment. Housing for those people with the greatest need -- the poor, the elderly, the handicapped, the mentally ill -- who can not afford basic housing must be supported by the federal safety net housing programs. Food, clothing and housing have always been seen as elements of life's necessities.

Housing has become much more costly since 1970, outstripping increases in income. Real incomes are up only 7 percent, while real house prices have risen 28 percent and mortgage interest rates, despite recent declines, are still significantly higher than in the 1970's. The housing affordability problem is particularly severe for low- and moderate-income renters. Between 1975 and 1984, real gross rents (including utilities and adjusted for inflation) rose 18 percent on average nationwide. Above-average increases occurred in the South and the West. Rents in the Northeast are growing rapidly now. Since 1975, rental cost increases have outpaced increases in income by 11 percent. Real incomes actually have declined an average of 4 percent for the poorest fifth of households. As a result, the "rent burden," or the percentage of income spent on rent, rose from a median of 48 percent in 1978 to 58 percent in 1983 among renters with incomes below $10,000 (in 1983 dollars). An increased rent burden hits low-income renters especially hard since many of them already have so little left after paying their rent. Of renters with less than $7,000 income in 1983, more than half paid at least 60 percent of income for rent. While this figure is somewhat mitigated by receipt of non-cash benefits, such as food stamps and medicaid, this burden is still extraordinary.

Low- and moderate-income households make up the large majority of renters. In 1984, the median income of all renters was about $15,000. Similarly, of all non-elderly households with incomes under $15,000 in 1983, 62 percent were renters. In fact, 27 percent of all renters were below the poverty line in 1983, more than twice the incidence for home owners. Not surprisingly, substandard housing is also concentrated among low-income households.

While the private market does an efficient job at supplying housing for most of the country's population (over 60 million housing units have been built since World War II), it does not meet the demand for low income housing without a governmental subsidy, a subsidy that comes primarily from the federal government.

The number of additional subsidized units authorized annually has declined by two-thirds since 1979 to a level sufficient to meet only a quarter of the growth in eligible households.

Despite evidence of a growing poor population, and a growing backlog of low-income housing needs, the federal government is cutting back on its housing subsidy programs for the low-income family. The U.S. Department of Housing and Urban Development's (HUD's) new budget authority for assisted housing fell from $26.7 billion for fiscal 1980 to a projected $3.9 billion in fiscal 1988.

This decrease in direct expenditures has been matched on the tax expenditure side. The Tax Reform Act of 1986 sharply reduced the incentives for the private market to construct and own low-income, multi-family rental units. The tax bill reduced depreciation, eliminated tax shelters, and reduced tax-exempt financing. Three likely results are: 1) a decline in the market value of much rental real estate, 2) a decline in new housing development until vacancy rates drop and rents rise, and 3) an increase in rents over five years in the range of 12 to 20 percent.

When one combines federal reduced investment in housing with the loss of some rental housing from abandonment, destruction, decay and conversion, and the withdrawal of a significant number of privately owned, federally assisted units for moderate income tenants under the pre-1974 Section 221 (d)(3) and Section 236 programs between now and 1995, the formula for the creation of major housing problems for the poor has been created.

States, which have not been major participants in the provision of low-income housing, may provide some new assistance, but they are not likely to fill even a small portion of a widening housing gap for low- and moderate-income citizens. Continued federal assistance is therefore needed.

## HOUSING ACT OF 1987

The National Governors' Association supports funding of HUD and FmHA assisted housing programs, at a level achieved in fiscal 1986, adjusted upward by one-half the rate of inflation. For HUD, assisted housing was appropriated at approximately $9.7 billion in fiscal 1986. NGA would support, therefore, an authorization level of approximately $10.3 billion. This represents a relative funding freeze at the fiscal 1986 level but an increase over present actual funding. Since fiscal 1986 the need for low-income housing has grown, but the federal money appropriated has been significantly reduced.

While Section 8 certificates and housing vouchers are important and appropriate where existing rental housing is available for individuals of low-income, there are states and areas where the supply of rental housing is inadequate. In those states it is necessary for the federal government to provide assistance to assure production of low-income rental housing. Moratoria on production have lasted too long. Therefore, Housing Development Grants, Section 8 new construction and Section 202 housing must be authorized and funded, or suitable new construction alternatives developed. States and localities should be involved in determining the appropriate mix of support between new and existing housing units for purposes of low-income rental subsidy programs.

NGA policy specifically endorses the permanent reauthorization of the Home Mortgage Disclosure Act of 1975 rather than the 5-year period set forth in S.2507 (from the 99th Congress).

NGA strongly endorses the continuation of community and neighborhood development programs. The CDBG program is an especially important program, especially in light of the elimination of General Revenue Sharing. It provides flexible funds to assist communities in housing, economic development and community facilities. The involvement of the Governors and the states in the administration of the small cities non-entitlement program has proven to be both effective and efficient in delivering federal funds to areas of highest need and leveraging state local assistance efforts. However, as the last few years have passed, the funding levels of the CDBG, UDAG and other community and economic development programs have been reduced. The Congress should consider the consolidation of such programs under the CDBG umbrella to eliminate unnecessary duplication and provide greater flexibility in the use of funds to meet local needs. This consolidation should occur with a view toward increased state involvement in the allocation and administration of these funds. Specific areas where such consolidations should be considered include state and local planning assistance programs; business loan and loan guarantee programs; water and waste facilities grants and loans; industrial and economic development grants and loans; and other federal public works and

## CONCLUSION

There is a continuing and growing need for direct federal financial assistance to provide shelter for low- and moderate-income people. States are becoming increasing involved in supporting the provision of housing, but this is relatively new for most states. Formerly, governmental involvement was federal money to local governments for administration or directly to private parties. This is now changing somewhat, as you can see from the attached publication, Decent and Affordable Housing for All: A Challenge to the States, recently released by NGA, describing the growing state role. However, the support of safety net programs is principally a federal responsibility, state involvement in housing is relatively new, and state financial resources are not adequate to meet the need. In fact the end of fiscal year 1986 state balances were only 1.6 percent of state expenditures as of August, 1986 (as compared to a Wall Street recommended end of year balance of 5 percent), and those figures have deteriorated significantly since then. A little more than half-way through fiscal 1987, 22 states have already cut their budgets from levels enacted last year. Therefore, federal funding for housing must continue at adequate levels.

for the full 17-year history of the program to only 0.06 percent of the total outstanding amount of mortgage-backed securities in 1986. Given these facts, it is impossible to justify the guarantee fee even at the current level of 6 basis points, much less an increase to 10 basis points. We think the fee increase is mistaken and should be reversed.

MBA also strongly supports inclusion of the following items in proposed housing legislation, most of which were discussed by the chairman. Each item is discussed in detail, of course, in our written testimony.

First, a prohibition on user taxes for Ginnie Mae, FHA, VA, Fannie Mae, and Freddie Mac.

Second, permanent FHA insuring authority, remembering the debacle of last year when the program was interrupted six times.

An increase in the number of adjustable rate mortgages FHA may insure; and an increase in the mortgage limits for multifamily projects in high-cost areas. And these are considered musts.

On the subject of national housing policy, we would like to applaud Chairman Cranston's recent call for a reexamination of this country's national housing policy. MBA, too, believes it is time for such an indepth study, particularly in light of the attempts by the current administration and OMB, to get the Federal Government out of the business of providing credit support to home buyers. I have made such a study a top priority during my tenure as MBA president. We are in the process of formulating what we believe will be a cohesive statement on the goals, principles, and programs which should be embodied in a national housing policy. To this end, we have just published this booklet, "Preserving and Building the American Dream: An Agenda for National Housing Policy." We have furnished members of this subcommittee a copy of it and we are most grateful, Mr. Chairman, for this opportunity to testify.

[Booklet in committee files.]

[The complete prepared statement of Thomas M. French, Jr., follows:]

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Mortgage Bankers Association of America

TESTIMONY OF

Thomas M. French, Jr., CMB
Chairman of the Board
BancBoston Mortgage Companies, Inc.

on behalf of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

of the

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

on the

"Housing and Community Development Authorization of 1987,"
and Related Housing Legislation

February 17, 1987

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Mr. Chairman and members of the Subcommittee, my name is Thomas M. French, Jr. I am Chairman of the Board of BancBoston Mortgage Companies, located in Jacksonville, Florida. I also serve as President of the Mortgage Bankers Association of America.* MBA appreciates the opportunity to testify on proposed legislation, the "Housing and Community Development Authorization of 1987," which Chairman Cranston has indicated will be modeled on last year's Senate housing bill, S 2507, the "Housing Act of 1986." Our comments also focus on S 258, the "Housing and Community Development Act of 1987," recently introduced by Senator Alfonse D'Amato, Ranking Minority Member of this Subcommittee. Accompanying me today are Burton C. Wood, MBA's Senior Staff Vice President and Legislative Counsel; and Brian D. Cooney, MBA's Associate Legislative Counsel.

MBA is deeply concerned by provisions in the Administration's fiscal year (FY) 1988 budget proposal that call for the imposition of increased user fees and other serious restraints on an array of Federal mortgage credit programs operated by the Federal Housing Administration (FHA), the Veterans Administration (VA), and the Government National Mortgage Association (GNMA).

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

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Specifically, the Administration's Budget:

- Introduces for GNMA an increase in the mortgage-backed securities (MBS) guaranty fee from 6 to 10 basis points, effective March 1, 1987. This will be done administratively unless Congress moves rapidly to prohibit this action.

- Estimates an increase in the FHA mortgage insurance premium from the present 3.8 percent to 5 percent, to be implemented by July 1, 1987. Unless Congress enacts a prohibition, this increase can be implemented administratively. Also for FHA, the budget envisions restricting the program to primary residences, increasing downpayment requirements for borrowers with incomes over $40,000, and prohibiting financing of closing costs.

- Proposes a similar fee increase in the VA Home Loan Guaranty program. Though not within this Committee's jurisdiction, we are also deeply concerned about a proposal raising the present 1 percent up-front fee to 2.5 percent.

- Proposes, vaguely "studying ways of privatizing" FNMA and FHLMC, and specifically proposes to freeze and roll back the maximum mortgage purchase limits. The proposed limit would be the lesser of $153,100, which would become a permanent ceiling, or an amount calculated on areawide or regional bases reflecting the "top quartile of the home loan distribution in any housing market."

The items of interest to MBA in any proposed housing legislation are discussed in more detail below.

## HOUSING LEGISLATION

### Prohibition on User Taxes for GNMA, FHA, VA, FNMA, and FHLMC

MBA strongly urges adoption of language to prohibit any increase in the current GNMA-MBS guaranty fee of 6 basis points and in the current FHA homeownership program's mortgage insurance premium of 3.8 percent. MBA is so troubled by the unilateral imposition of a higher fee, without consultation with the Congress or others and in violation of its own regulations, that on February 11, 1987 we filed suit to enjoin GNMA from carrying out this action. For other types of GNMA and FHA programs, MBA supports a prohibition on increases in any fees, premiums, or charges collected by the Federal government with regard to loans, guarantees, or insurance provided by the Secretary of the Department of Housing and Urban Development (HUD), unless such fees are used to compensate the government for actual administrative expenses and anticipated losses based on actual experience.

Charging fees to users of the government's housing and mortgage credit programs for the purpose of enhancing U.S. Treasury revenues will increase mortgage rates and is contrary to the Congressional purpose of fostering homeownership through these programs and entities. MBA believes that in the fight to reduce the Federal deficit, it may be necessary to raise taxes as a last resort, once significant cuts have been made in Federal spending. But such increases should be broad-based rather than imposing a special tax on homeownership. Homebuyers and borrowers should benefit from the purpose of these programs, which has been to foster homeownership opportunities by making mortgage credit more affordable for moderate- and middle-income homebuyers.

These mortgage credit programs represent a true working partnership between private enterprise lenders, who provide the mortgage funds, and the Federal government, which provides a guaranty or insurance protection. Borrowers benefit because FHA/VA programs ensure a stable supply of mortgage credit at the most affordable rate possible. GNMA provides a guaranty on mortgages pooled for sale to investors in MBS form. This mechanism provides access to national credit markets, increases market efficiency, and lowers mortgage interest rates. In essence, these activities put individual borrowers on the same plane as large government and corporate borrowers.

**GNMA.** The GNMA-MBS program provides a means for homebuyers, primarily moderate- to middle-income families and veterans, to obtain competitive access to capital markets via the secondary mortgage market. From the inception of the GNMA-MBS program in 1968 until December 31, 1986, GNMA imposed an annual guaranty fee of 6 basis points with respect to pools backed by FHA and VA single-family mortgages. Experience indicates that this fee more than amply provides for the expenses of GNMA and adequate reserves for potential losses. Since the GNMA-MBS program was initiated, GNMA has collected guaranty fees of $817.4 million. In addition, it has collected other fees and has earned investment income that has been set aside in the GNMA reserve fund maintained with the Treasury Department, which totalled $1.35 billion as of September 30, 1986. During 1986 alone, about $292 million were added to reserves, while program losses were only about $200,000, or 0.06 percent. GNMA has never had to draw any amounts from its reserve at the Treasury, having paid all claims from current year's income. In fact, the proposed Federal budget for FY 1988 indicates that GNMA expects to transfer $485 million to the Treasury, after payment of all operating expenses and losses during FY 1988.

It is clear that GNMA's proposed increase in the guaranty fee from 6 to 10 basis points is far in excess of the amount necessary to compensate GNMA for the cost, expense, and risk of maintaining the MBS program. The Administration's budget document is quite clear that the intent of both the FHA and GNMA fee increases is to make borrower fees equivalent to those charged by conventional mortgage insurers. This redirection of purpose for GNMA and FHA flies in the face of Congressional interpretation of these programs, which is to foster an available and affordable supply of mortgage credit.

The increase in the guaranty fee will result in, and is clearly intended to result in, a reduction of the volume of GNMA issuances and therefore the availability of FHA and VA loans. It will increase the cost of housing to moderate- and middle-income homebuyers. When passed on to homebuyers, the increase in the GNMA guaranty fee alone will increase the cost on an average FHA loan by $160 per loan, and will increase the cost on an average VA loan by $180 per loan. In the aggregate, the increase in the GNMA fee would increase the cost to homebuyers by an additional $219 million per year, based on 1986 loan volume.

On February 9, 1987, legislation was introduced in the U.S. House of Representatives to block the increase in the GNMA fee. HR 1056, introduced by House Housing Subcommittee Chairman Henry Gonzalez, would place a 6 basis point cap on the fee. MBA strongly urges Congress to pass this legislation swiftly in order to block the increase prior to the March 1 effective date.

**FHA.** A true user fee should be equivalent to the cost of providing a service. In that sense, the FHA unsubsidized mortgage insurance programs have always been subject to user fees because the mortgage insurance premiums that are charges to borrowers have always covered the cost of operating these programs, including administrative expenses such as salaries and overhead, as well as losses attributable to default claims that must be paid. FHA has always served the riskier borrower population, but because it carries a high mortgage insurance premium it has, nonetheless, been actuarially sound.

The Mutual Mortgage Insurance Fund (MMIF) is the reserve fund that covers primarily the FHA Section 203(b) homeownership program. Borrowers' premiums are used to cover operating costs, and the balance of those fees are placed in the MMIF. As of the end of FY 1986, it contained $4.07 billion in reserves. Thus, the cost of providing the service that the Federal government offers, mortgage insurance, is fully covered at present by fees. Yet the Administration's FY 1988 budget proposal would increase those fees so that the Federal government would derive even larger income from program operations. And that income is obtained from those who can least afford it—moderate-income homebuyers. Many FHA borrowers are first-time homebuyers who need the FHA low-downpayment program to get their foot in the homeownership door. According to MBA's Economics Department, increased fees on the average FHA loan on a $65,000 home will cost the average FHA homebuyer an additional $2,200, thereby eliminating many would-be homebuyers from qualifying for FHA loans. The maximum loan that FHA may insure is $67,500 in many areas and up to $90,000 in designated high cost areas. These limits serve to focus the benefits of the FHA program on those who need them.

MBA strongly urges swift Congressional action which would prohibit the Administration's proposed increase in user fees for the GNMA, FHA, and VA programs.

Permanent FHA Insuring Authority

MBA strongly urges the Congress to enact permanent insuring authority for FHA. Such authority would grant relief to homebuyers and to mortgage lenders from the extremely disruptive situation experienced when FHA's insuring authority expired on seven different occasions between September 30, 1985 and September 30, 1986, lapsing for a total of 54 days.

FHA Investor and Second Home Loans

The Administration's FY 1988 budget states that legislation will be proposed to limit FHA insurance eligibility to buyers of primary residences only. MBA strongly opposes any legislative proposals that would restrict the use of FHA single-family mortgage insurance to primary residences. Investor-held properties are an important source of single-family rental housing, which is particularly important for moderate-income larger families that cannot afford to purchase homes of their own. Now that Federal spending for assisted housing and the new tax laws have limited investment opportunities in real estate, the availability of rental housing is more crucial than ever before. This proposal will also prohibit FHA financing on second homes. FHA is an important source of financing for such homes in areas where conventional financing is often unavailable.

Because MBA shares HUD's concerns about problems with investor properties, we have recommended to HUD several changes to minimize the risk inherent in these transactions. These recommendations are contained in MBA's Task Force Study entitled "The Federal Housing Administration: Past, Present and Future," published in September 1986. Also, in Mortgagee Letter 86-15, dated August 8, 1986, FHA has already made several changes to address the problems in this area, including the prohibition on taking cash out on investor refinances and the requirement of a credit check from individuals assuming an FHA loan within two years of the loan's original settlement date. For second homes, HUD regulations require an 85 percent loan-to-value ratio. A 15 percent downpayment should act as sufficient incentive for borrowers to avoid default.

MBA believes Congress should wait and see how effective the regulatory changes embodied in Mortgagee Letter 86-15 will be in reducing defaults [illegible], considering legislative restrictions on the FHA investor and second home loan program.

### Increase in Number of Adjustable Rate Mortgages FHA May Insure

The Housing and Urban-Rural Recovery Act of 1983 (P.L. 98-181) authorized FHA to insure adjustable rate mortgages (ARMs) with payment caps of 1 percent annually and 5 percent over the lifetime of the loan. Because ARMs were a relatively new mortgage product at that time, FHA insuring authority for its ARM program was restricted to 10 percent of the total number of FHA mortgages insured in the previous year.

The FHA-ARM is a consumer-oriented product. With the FHA low-downpayment feature combined with the 1 percent annual increase cap, borrowers are insulated from the potential extremes of payment shock. Most conventional ARMs carry a 2 percent annual and 5 to 6 percent lifetime cap, and require 10 percent downpayments.

MBA urges that the volume limitation for FHA-ARMs be removed. Although ARM activity has decreased in light of lower interest rates, recent history has shown that this instrument will regain its popularity as interest rates rise. In establishing the limited demonstration program in 1983, Congress was proceeding cautiously, because ARMs were essentially a new type of mortgage product. Since that time, however, the marketplace has gone through the learning process of developing appropriate ARM products. Section 127 of S 2507 would increase the volume limitation for ARMs from 10 percent of the previous year's total number of insured mortgages up to 40%.

### Reducing Losses Under the FHA Single-Family Program

MBA strongly supports a strong and viable FHA program. Curbing fraudulent and abusive practices is an industry objective. While MBA supports the objective of increasing quality controls on FHA lending practices, we are concerned that FHA staffing levels are inadequate to take on substantial added responsibilities to review loan cases. Therefore, while MBA welcomes the additional responsibilities given the lender in the FHA Direct Endorsement program which have enabled FHA to reduce its staffing requirements, it is important that FHA retain an adequate number of competent employees to monitor its programs and to train lenders in the procedures required for FHA processing. It is important that FHA have adequate staff comprised of both experienced professionals and developing employees ready to step in and fill vacancies left by retirements and resignations. As has been pointed out, all FHA staff salaries are paid out of program revenues, and involve no Congressional appropriations.

### Increase in Mortgage Limits for Multifamily Projects in High Cost Areas

Section 122 of S 2507 and Section 201 of S 258 would allow the HUD Secretary to raise the mortgage limits for multifamily projects by specified percentages in high cost areas. MBA supports increased mortgage purchase limits because such increases reflect the market reality of rising multifamily development costs and are necessary to provide adequate financing needed to increase supplies of multifamily housing.

### Lead-Based Paint Poisoning Prevention

In light of recent court decisions relating to the hazards that lead-based paint poses to small children, HUD has promulgated final regulations, dated January 15, 1987, regarding

Senator CRANSTON. Thank you very much and thank you for your good words which I appreciate.

Mr. Kendall, we are delighted to have you. Mr. Kendall is Chairman of the Board, Mortgage Guarantee Insurance Corporation, Milwaukee, WI; and Chairman, Policy Development Committee, Mortgage Insurance Companies of America.

After those fine words about you from our Chairman, we expect you to resolve all our problems now.

## STATEMENT OF LEON T. KENDALL, CHAIRMAN OF THE BOARD, MORTGAGE GUARANTEE INSURANCE CORP., MILWAUKEE, WI; AND CHAIRMAN, POLICY DEVELOPMENT COMMITTEE, MORTGAGE INSURANCE COMPANIES OF AMERICA

Mr. KENDALL. Thank you, sir. I appreciate being here and I wish to thank Senator Proxmire for his kind words. It's nice to be from Wisconsin and to appear in these halls.

MICA, the Mortgage Insurance Companies of America, in its formal statement seeks to do three things: One, to comment on the current state of the public-private partnership which, as Senator Dodd said, has been the hallmark of national housing policy since the 1940's; two, to bring to the committee's attention the FHA task force report recently completed by HUD on mortgage insurance; and three, to respond specifically to the questions in your letter regarding the administration's proposals on the pricing and coverage of FHA insurance.

Regarding the first point, let me say simply that the private mortgage insurance business is alive and well and ready to accept a growing role in guaranteeing one- to four-family home loans during the balance of this decade. It is proud of its record during the 1980's. We have supported housing not only in good times by expanding our coverages and innovating to meet the aggressive marketing challenges placed before us by home builders, realtors, and mortgage lenders, but also in bad times by protecting the reserves and assets of financial institutions and mortgage investors, by paying our just claims.

Since 1983, the industry has paid out almost $3 billion in claims. There's a big difference between paying claims to policyholders and losses, and some people tend to confuse that. The industry in the 30 years of its existence lost money in only 1 year. Companies active today are profitable. According to the latest Moody's report, they made $121 million after taxes during the first 9 months of 1986. New capital has been added and total capital and contingency reserves are higher today than they have ever been.

### FHA TASK FORCE REPORT ON MORTGAGE INSURANCE

Regarding the FHA task force report on mortgage insurance, this HUD study completed in late January 1987 is an important contribution to the public-private dialog on mortgage insurance. The report states on page 23 regarding overlaps in borrowers served:

> FHA and private insurers show similar profiles for home buyers with modest incomes and first-time home buyers. Forty-five percent of all FHA-insured borrowers who purchased homes in 1984 had modest incomes. Thirty-eight percent of all privately insured mortgagors also had modest incomes. Likewise, while 63 percent of

all FHA insured borrowers in the early 1980's were purchasing their first home, 53 percent of all privately insured mortgagors were purchasing their first homes.

This finding is particularly interesting given the fact that a private mortgage insurer can insure loans of well over $100,000 while the FHA is limited according to law to $90,000 or less.

We would urge this committee to follow through and have the questions raised by the HUD study fully answered and we pledge our full cooperation in this effort.

MICA does not advocate abolishing the FHA section 203(b) program. We believe lenders and housing need a strong FHA. We support the 2-year extension of FHA's authority. We support changes that will make FHA more responsive and dynamic in fulfilling its mission.

We also ask for changes that will encourage private insurers to serve the market to their full potential. The Government entity has a significant advantage. It substitutes Federal backing for required capital funds, has direct access to capital markets through Ginnie Mae backed by the full faith and credit of the U.S. Government, and is exempt from various taxes.

Regarding the questions you raised in your letter on FHA pricing, we will try to respond to this question: What would a private vendor charge for FHA insurance coverage?

To respond, we ran the FHA loan program through one of our company pricing models using the following assumptions: A 95-percent fixed rate loan with 100 percent coverage, a 12-year half-life, expense ratio of 20 percent, salvage value on foreclosure of 65 percent, a risk-to-capital ratio at 20-to-1 or 5 percent reserves which is S&P's standard for an AA rating, and a return on capital hurdle of 15 percent after tax, with foreclosures running at 6.2 per 100. From the model we came to a single premium price of 585 basis points.

If you move the assumed expense ratio up to 30 percent, which is closer to our industry's average, the price goes to 660 basis points. Thus the private sector equivalent is higher than that suggested by the administration of 500 basis points.

The question was asked regarding second home loans. All companies in our industry provide this coverage and the experience has been good. We make such loans at an 80 percent and 90 percent level but not at a 95 percent level and one limit to the customer.

As far as investor loans are concerned, most companies today do not provide coverage on investor loans. The industry underwriters now regard investor loans as more of a commercial risk than a consumer risk and inconsistent with our mission to put people in homes of their own.

As far as including closing costs in mortgage debt, no private companies will insure loans where closing costs are included in mortgage debt. The practice in essence raises the loan-to-value ratio and reduces cash equity. Industry experience on over 80 percent loans indicates that risk increases disproportionately as the cash downpayment is reduced. Some insurers are experimenting with the financing of a single mortgage insurance premium in loan contracts, but only with regard to on 80 and 90 percent loans and for loans over 95 percent.

Summing up, Mr. Chairman, in the area of low downpayment high-ratio lending, the private mortgage insurance industry comes before you to say that it has the market understanding and sense of commitment to do the job and will bring to the task the human and capital resources required to house another decade of young Americans.

[The complete prepared statement of Leon T. Kendall follows:]

the removal of lead-based paint from FHA single-family and multifamily insured and assisted properties. In addition, Section 567 of HR 4, the "Housing and Community Development Act of 1987" introduced on January 6, 1987 by House Housing Subcommittee Chairman Henry B. Gonzalez, contains language that would clarify the authority of the HUD Secretary to eliminate hazards under the Lead-Based Paint Poisoning Prevention Act (P.L. 91-695) by requiring the removal of "intact" lead-based paint, as well as chipped and peeling paint, found on the interior and exterior surfaces of buildings covered by FHA mortgage insurance and constructed prior to 1950.

We realize the hazards that lead-based paint presents to infants and small children. We are concerned, though, that an overly stringent standard will virtually eliminate the availability of FHA financing on older homes, particularly in urban areas. MBA believes the requirement of complete removal as a predicate to FHA insurance is financially infeasible. Even the matter of detection creates problems. There are currently only 400 machines in the country which can detect lead-based paint. These machines and their upkeep are prohibitively expensive for FHA appraisers to purchase and maintain. Currently, most of these testing machines are owned by state or local governments. HUD estimates that there are approximately 500,000 applications for mortgage insurance on pre-1950 housing per year. This lack of testing capacity would create serious processing delays.

The protections afforded by HUD's recently published regulations covering the insured homeownership programs are sufficient. These require appraisers to note defective paint surfaces and require sellers to correct such deficiencies before FHA will insure a loan. The regulations further require that borrowers receive information detailing the hazards of lead paint and providing reasonable techniques for hazard abatement.

## Increasing the Maximum Mortgage Amount for FHA

MBA supports an increase in the maximum allowable mortgage amount for FHA. Currently, the FHA maximum mortgage amount is set at $67,500, with a high-cost allowance for certain designated areas that ranges up to a maximum amount of $90,000. In many areas, the applicable maximum allowable mortgage amount for FHA does not reflect the realities of the housing marketplace. The maximum mortgage amount has not been adjusted since 1979.

FHA primarily serves moderate- to middle-income homebuyers. In those areas where the maximum amount is insufficient, homebuyers who might otherwise rely on the low-downpayment FHA programs are deprived of this available financing vehicle. And, in many instances, these homebuyers have no other alternative sources of credit.

## Authority of FNMA AND FHLMC to Purchase Second Mortgage Loans

The authority of FNMA and FHLMC to purchase second mortgage loans expires August 1, 1987. MBA supports legislation that would extend permanently the authority of these secondary mortgage market agencies to purchase second mortgage loans. Due to the elimination of many interest deductions as a result of the Tax Reform Act of 1986 (P.L. 99-514), it is expected that second mortgage loans, because they are secured by a residence and could thus be eligible for an interest deduction, will become very popular for many Americans in carrying out their financing needs. The continued ability of FNMA and FHLMC to purchase these loans is crucial to the liquidity of this product, and will serve to lower interest rates generally for home improvement and other loans where the borrower's home serves as security for the loan's repayment.

## Privatization of FNMA and FHLMC

A theme that reemerges in the Administration's FY 1988 budget proposal is the call to study "ways of privatizing" FNMA and FHLMC. Further details about how to accomplish this objective, or even why it is an objective, are not provided. But the Administration's budget does propose to limit the maximum mortgage that FNMA or FHLMC may purchase. The proposal calls for a freeze at the current limit of $153,100 and a rollback that would be by city or region to set the limit at the lesser of $153,100 or the "top quartile of the home loan distribution in any housing market."

MBA strongly opposes targeting of FNMA and FHLMC mortgage loan purchases. These mortgage purchase limits are set annually according to a survey conducted by the Federal Home Loan Bank Board (FHLBB), which measures changes in the average price of single-family homes purchased with conventional mortgage loans during the preceding 12-month period. MBA's Economics Department recently conducted a study concerning the accuracy of this index, and concluded that there is nothing about the FHLBB sampling methodology which suggests that the estimates of purchase prices used in the survey are not representative of the actual price of single-family homes purchased through conventional loans. Moreover, given the fact that the FNMA and FHLMC purchase limits apply to conventional loans, the FHLBB survey is most appropriate because it is based on a sample of homes purchased with conventional loans, whereas alternative surveys are based on samples of all homes purchased, regardless of the type of financing involved.

## Federal Credit Budget Reform

The Administration's FY 1988 budget includes plans to send a proposal to establish Federal credit program management procedures to Congress by March. The purpose of this

legislation is to consolidate management of all Federal credit and direct loan programs within the U.S. Treasury, to deauthorize the Federal Financing Bank (FFB) functions, and to impose controls that will limit the role of Federal credit programs. Although the details of that plan have not yet been made public, its intent is clear—quantification of the "implicit subsidy" for federally guaranteed and direct loan programs. As defined in the budget, "The subsidy for a guaranteed loan would be reflected by the premium charges by the insurance company (for reinsurance), in addition to the value of any explicit interest subsidy." Senate Budget Committee Chairman Lawton Chiles, who has expressed interest in the concept, has scheduled a hearing on March 4. The Administration's proposal is expected to be similar to S 218, the "Federal Credit Reform Revolving Fund Act," which has been introduced by Senator John Heinz.

The Federal Credit Reform Revolving Fund (the Fund) would take on FFB's current role as the "traffic cop" for funding federally backed commercial paper, as well as assuming additional management functions, which include measuring program subsidy costs, collecting credit program data, and improving debt collection practices. The Fund would assess fees for each program's subsidy costs, would establish and maintain reserves for payment of claims and losses, and would sell or reinsure loans and guaranties where the Treasury determines it appropriate. The management of credit program policies and eligibility guidelines would remain within the jurisdiction of agencies currently operating credit programs. Finally, the proposal will provide that appropriations acts would not only have to establish credit budget program limits, but would also have to contain a line item "appropriating" the "subsidy" attached to each program. This estimated fee would actually be paid into the Fund and recorded in the budget account of the originating agency.

The bill covers all loans, credit guaranty, and direct loan programs of Federal agencies and entities partially or wholly owned by the government. This would cover mortgage credit activities of the VA, FHA, and GNMA. FNMA and FHLMC are not expected to fall within the purview of this proposal.

The Office of Management and Budget (OMB) has already estimated the present value of these subsidies at 1.2 percent for FHA, 1.9 percent for GNMA, and 6.3 percent for VA. As stated in the budget, these figures measure "the value of the subsidy to the borrower, not the cost of the subsidy to the Government. It would be inappropriate to use such a cost-to-Government basis for calculating economic subsidies, since it would not measure the cost of the loan guaranty to the economy."

MBA is strongly opposed to these credit management concepts. Housing programs (FHA, VA, and GNMA) represent 86 percent of the guaranteed loan commitments in 1986. The FHA and GNMA programs, as well as a number of miscellaneous, non-housing, guaranteed loan programs, fall under the jurisdiction of the Banking Committee. Because these credit management concepts would fundamentally alter the character and direction of these programs, it is essential that the Committees of jurisdiction have a say in the progress of potential legislation. Therefore, MBA will be seeking joint referral to the Banking Committee, as well as to the Budget or Governmental Affairs Committees.

## NATIONAL HOUSING POLICY

MBA would like to take this opportunity to applaud and join Chairman Cranston in his recent call for a re-examination of this country's national housing policies and priorities. MBA, too, believes it is time for such an in-depth study, particularly in light of the

attempts by the current Administration, as well as by OMB, to get the Federal government out of the business of providing credit support to homebuyers.

MBA is in the process of formulating what we believe will be a cohesive statement on the goals, principles, and programs which should be embodied in national housing policy. To this end, we have just published a booklet, dated February 1987, entitled "Preserving and Building the American Dream: An Agenda for National Housing Policy." We are hopeful that the ideas expressed in this booklet, which include what we believe the Federal government's commitment to housing should be, will help contribute to the establishment and implementation of a national housing policy.

We believe that a strong national housing sector is vital to our country. Yet, in the last decade, homeownership rates have dropped dramatically, especially among young families. From 1975 to 1985, the homeownership rate in the 25-29 year age group dropped from 43 percent to 37 percent, and for the 30-34 year age group the rate dropped from 62 percent to 53 percent.

The Nation's housing policy should focus on this fact, and the fact that the Federal mortgage credit programs can contribute greatly to making Americans the best housed people the world. These programs have changed this country from a land of renters to a land of homeowners. They should be the foundation of a policy geared toward furthering the availability and affordability of decent housing. We should maintain broad-based opportunities for homeownership, and other housing alternatives, to assure that no one in America has to live in inadequate shelter or has to pay a disproportionate share of income to have decent housing.

Affordability of decent housing is a problem for many Americans. Few low-income families can afford to purchase a home; and they face limited opportunities for attaining decent, affordable rental housing. For a wider range of Americans, including moderate-income families, serious affordability problems emerge when downpayments are high, market interest rates are high, or the economy is in a weakened state.

The Federal government has a responsibility to maintain and improve the affordability of housing for all its citizens, using the most cost-effective means. FHA, VA, GNMA, FNMA, and FHLMC provide just such cost-effective programs and are critical to continuing the opportunities for American families to buy a home. For those who cannot own a house or do not choose to, the government has the responsibility of assuring that decent, affordable rental housing is available and accessible for all families and individuals.

Housing policy, in order to be cohesive and effective, should be guided by a framework of basic principles. We believe those principles should include:

— A commitment to the achievement of the opportunity for every individual in America to have decent shelter at an affordable price or rental rate.

— A conviction that homeownership should be the cornerstone of American housing policy. Homeownership provides opportunities as varied as the American people themselves. It provides the ultimate opportunity for independence, individualism, self-expression, and a sense of fulfillment. Homeownership gets people involved in their community, its government, and in the private property system—it builds good citizens. Homeownership provides a place of security and sense of belonging that forges stability and solid family ties.

— For families and individuals that cannot afford decent housing, or for those whom the marketplace does not provide a supply to meet their special needs—such as the elderly and handicapped—government has the obligation to provide suitable housing assistance.

— Because housing is so dependent on long-term credit, policies that promote stable economic growth, low inflation, and low interest rates are integral to achieving adequate supplies of decent shelter at affordable prices and rents.

Although declining interest rates have created improved homeownership opportunities during the past two years, housing nonetheless represents the single largest monthly expense for most households, including renters. Recognizing this and the importance of adequate housing, Congress should address the issue of the Federal government's role in fostering affordable housing for owners and renters alike.

MBA appreciates the opportunity to appear before the Subcommittee, and we would be pleased to furnish additional information as needed.

**Statement of Leon T. Kendall,**
**Chairman Legislation Policy Committee**
**Mortgage Insurance Companies of America (MICA),**
**before the**
**Subcommittee on Housing, Senate Committee on Banking, Housing and Urban Affairs,**
**In Regard to Pending Housing Legislation and National Housing Policy**

Mr. Chairman and Members of the Subcommittee:

The Mortgage Insurance Companies of America (MICA)* appreciates the opportunity to present its views on housing legislation under review as well as it views on the need to update national housing policy. Since the last major housing legislation the housing finance markets have changed dramatically. Credit risk has intensified both nationally and by region. The importance of mortgage securities and the secondary market has continued to grow. Markets are more volatile. Today's decisions about housing policy should not be based upon yesterday's thinking.

Existing housing policy is built upon a partnership between the private and public sectors, and we believe in such a partnership for the 1990's. The National Housing Act of 1949 sets forth that policy in a most appropriate manner:

> "The policy to be followed in obtaining the national housing objective hereby established shall be (1) private enterprise shall be encouraged to serve as large a part of the total need as it can; (2) Government assistance shall be utilized where feasible to enable private enterprise to serve more of the total need."

Within this historical context Congress from time to time must reexamine guidelines such as ones that apply to the construction of subsidized low income housing, to the nature of the secondary mortgage market, and to the guaranteeing of low downpayment loans through mortgage insurance. Because of recent market changes there is a need for the Congress to reset the dials in an attempt to attain the appropriate mix between private and public efforts in meeting the shelter needs of Americans. This resetting is likely to turn on three factors:

1. The choices facing government in allocating credit among competing national priorities and absorbing the true cost of credit risks;
2. the nature of supply and demand for housing and home finance in the marketplace and most importantly, upon
3. the capabilities of the participants.

Since government cannot realistically do everything everybody may want it to do, it is appropriate to elicit the maximum contribution from the private sector in attaining policy goals. Public policy must seek a government role that brings the greatest efficiencies to the markets.

In determining the choices facing government we believe it is crucial that Congress have before it the facts on who does what in the marketplace. If an efficient private-public partnership is to be achieved, it must be based upon a full understanding of the role private industry plays. Because government capital and credit capacity is a scarce resource, it must be used today more discriminately than was the case 15 or 20 years ago. Encouraging private efforts to achieve national policy objectives therefore would seem to be sound public policy.

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*MICA consists of the thirteen domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President, C. Earl Corkett of PMI, San Francisco; Vice President, William Lacy of MGIC, Milwaukee, WI; Treasurer, J. Edward Carlton of Integon Mortgage Guaranty Insurance Co., Winston Salem, NC; and Secretary Fred Reichelt of Verex Assurance, Inc., Madison, WI. MICA also has private mortgage insurance companies members in Canada and Australia.

Senator CRANSTON. Thank you very, very much.

Mr. French, let me say first in response to your particular concerns about the Ginnie Mae fee increase. I expressed my concerns about that in my opening comments. It is contrary to the will of Congress very plainly—and Senator D'Amato and I will introduce legislation to prohibit the increase and there may be special action on that before we get to the general bill that we're working on.

I am also sending a joint letter with Senator D'Amato to Secretary Pierce, asking him to withhold action on that front until Congress has had time to act.

I'd like to ask the same questions that I asked the previous panel. First, are there any of the administration's proposals that you feel are urgent and should be included in the legislation that we're going to enact?

## PROCEDURES USED IN PRICING A CONTRACT

Mr. KENDALL. My response to that, Senator, is that I believe, relative to the FHA, that the issue raised as to the procedures used in pricing that contract, that actuarial studies might well show that the private-public balance could be improved without harm to the markets through price changes of this sort. I think this subject deserves a good deal more investigation and study.

I would say what's different about analyzing FHA pricing is the contention that FHA makes money. The question, though, is FHA actuarial performance by what kind of standards and by what kind of accounting? If one uses Government accounting and Government standards and talks only about cash flow in Government programs, it's probably correct to say FHA makes money. However, if one attempts to do a private evaluation and pricing of that risk, a different conclusion results. Knowing what we know from my company insuring over the last 7 or 8 years as many loans as FHA, there are certain capital costs and charges that must go into the equation. A more realistic answer to pricing changes is that there is clearly something here that merits more study.

I make one other point—the full Senate committee has dealt with a similar challenge to determine the impact on the market from the price of government services. It was in the area of check clearing and wire transfer dominated by the Federal Reserve Systems and yet the Security Pacific Bank and the First National Bank of Chicago and all the correspondent banks perform the same kind of service. In trying to create some pricing competition for the Federal Reserve, this committee came up with a concept called the private sector adjustment factor

In essence, the Committee studied competitive private costs and competitive private prices and then looked at the Federal Reserve with its unique and special powers and cost structure, and made the Federal Reserve in pricing competing services include a factor which is the equivalent of cost of capital and some other costs that are burdens of private firms.

Based on that, the banks have a more vibrant system and a more competitive system, and it was achieved without telling Government to charge this or that specific fee. In conclusion I think that this approach to Government pricing of services deserves consideration by this Subcommittee as interesting, innovative, and forward-looking in addressing FHA, GNMA or other fees.

Senator CRANSTON. Thank you. Did you have a comment, Mr. French?

Mr. FRENCH. Yes. Mr. Chairman, the comments that I would make about the administration's proposal about the increase in fees and so forth, and particularly in relationship to the FHA, the Federal Housing Administration are that the section 203(b) program has been the group insurance for the American people to buy a home. It is true, as Mr. Kendall says—and he is certainly a recognized expert—that if you attempt to analyze the FHA from the standpoint of all the factors that must be considered by the private sector, you might come up with a different answer. But the truth is, there is a responsibility, as you reflected in your opening statement, of our country to provide Federal Housing Administration insurance on a flat cost, on a basis that can be worked throughout the country, and perhaps not taking into consideration the reserves and capital and many of the other factors that have to be considered in a purely private approach to this insurance.

But they are two functions. They are separate. And they have been working. For 50 years it's changed the face of our country. We need and value private mortgage insurance, but suddenly to suggest that all Government programs must meet all the tests of operating a private mortgage insurance company to determine whether they are viable and to set the premium for them is inappropriate. It isn't going to work, and it's not what's made the programs work all through the years.

Senator CRANSTON. What would be the impact if all the administration's proposals were to be enacted, apart from those you've already commented on?

Mr. FRENCH. With respect to the housing programs, of course, we have seen the administration's attempt at a steady diminution—not just proposed this year but since 1981. The VA program is a good example of deadly force being applied by the OMB. In my judgment, if they are all put in place, it simply means that a great many young people, first-time home buyers and so forth, will be disenfranchised because Leon and his industry simply can't assume responsibility for the Nation.

Senator CRANSTON. I would appreciate it if you would each take a look at S. 2507 of last year and advise us in writing within 1 week if any elements should be revised and if there's anything you would like to add to it.

### FHA INSURING AUTHORITY

Senator Dodd asked me to ask you the following question. He indicated that he's going to introduce legislation today to make permanent the insuring authority of the FHA. He says this is a measure that I know you all support and I don't feel it's necessary to go into the details of that discussion; however, I would ask this morning that you cite for us what the permanent insuring authority of FHA could mean to American home buyers or, conversely, what its nonextension has meant to them up to this point?

As this partnership applies to mortgage insurance, there must be balance between the private and public role. Thus, MICA does not advocate abolishing the FHA 203(b) program. We believe lenders need a strong FHA. We support changes that will make the FHA more responsive in the market and more dynamic in fulfilling its mission. We also support changes that will encourage private insurers to serve the market to their full potential in a way that is commercially feasible and fiscally efficient. In the past two years the competitive balance has moved substantially in favor of the FHA and MICA members have become appropriately concerned about the nature of the playing field on which they must compete with the FHA. The capabilities this government entity has in substituting Federal backing for required capital funds, its direct access to capital markets through GNMA with the backing of the full faith and credit of the U.S Government, and its exemptions from Federal, state and local taxation are more important than ever today.

There is precedent for Congress to examine the question of the private-public balance in the area of mortgage insurance. In 1970, Congress recognized the capabilities and potential of private mortgage insurers by specifying in Section 201 of the Emergency Home Finance Act that any conventional home loans purchased by FNMA and FHLMC had to be insured by a qualified private mortgage insurer. Our industry responded positively. Existing companies doubled their capital within a short period of time. The number of active insurers increased. Large national companies entered the industry bringing new risk capital with them. This gives eloquent testimony to what Congress can expect from the mortgage insurance industry.

What would have been the result if the 91st Congress had decided to "play it safe" and gave FHA a broadened franchise regarding conventional loans or had set up FNMA and FHLMC to accept uncovered high-ratio risk? Congressional wisdom has been validated vividly during the past three years. Mortgage insurers during this period, according to our estimates, paid $300 million in claims to FNMA which had earned $294 million before taxes. Since those claims dollars go right to FNMA's "bottom-line" or reserves, one can say mortgage insurance payments protected not only the agency's reserves but the U.S. Treasury funds which stands behind FNMA's reserves. In the same period, FHLMC was paid close to $50 million by MICA members. The fact that insurers hold independent pools of capital and reserves, make independent underwriting decisions, have their own guidelines, and must live within the constraints placed upon them by credit-rating agencies and state authorities, their efforts work to protect the public against the kind of excesses that prompt those onerous calls for Federal bailouts.

MICA is not presenting to this Subcommittee at this time any new specific legislative proposal for changing the government's role in mortgage insurance. We are studying proposals that the Administration is advancing and we are examining ideas that members of the Congress have raised. Changed conditions in mortgage finance cry out for more extensive data and hard facts before policy decisions are made.

MICA's own analysis of data suggest a number of important facts that should be studied to more fully assess the respective influences of the FHA and private insurance programs on homeownership opportunities. MICA began to seek such data after it responded to a request from HUD Secretary Pierce's FHA Task Force for information on the private industry's experience.MICA had offered to help the task force develop the necessary data and to meet the objectives of their FHA study. We recommended the task force examine such competitive factors as:

- a comparison of capital costs;
- a comparison revenue elements in originating, servicing; and selling FHA and conventionally insured loans;
- a comparison of program operating factors such as processing time;
- a comparison of the consumer advantages including loan assumability, downpayment, qualifying ratios and refinancing options; and
- the value of the access to the secondary market through GNMA compared to other conduits.

The concerns of market overlap and competition were critical when the task force was initiated. The plan at that time was to examine questions of interest to Congress as to whether the overlap between private and FHA insurance reflects inefficient duplication and the extent to which the Section 203(b) program provides access to homeownership for families over and above that being provided by private mortgage insurers.

We applaud the thoughts expressed in the recently released final report of the FHA Task Force and agree with the partial conclusions and recommendations. We call attention to this report because it provides some valuable data that discloses in general terms the extent of the overlap in the types of borrowers served by

the FHA and private insurers. MICA would recommend that the Subcommittee begin at this time to complete the work started by the FHA task force and obtain the essential facts and information upon which to base future policy determinitions about the government's role in mortgage insurance. We have included in an appendix to this testimony some excerpts and tables from the FHA's final task force report of January 27, 1987.

As an additional note, we believe it is essential that Congress obtain data that presents an accurate picture as to how individual housing market conditions including supply and demand factors, can affect this partnership balance. Market changes generate new disciplines governing an insurers approach to new business growth as well as an insurers cost structure and need for capital adequacy. Different markets have different institutional and demographic factors that influence the use of insurance coverages. For example, at the same point in time, the housing markets in Oklahoma may present business conditions that are totally unlike those found in New England.

Speaking to the capabilities of mortgage insurers, we hasten to set the following facts before the Committee. Since our industry's inception its goals have been to increase both the availability and affordability of homeownership; much the same goals as those of FHA. The insured conventional loan has grown to a position of dominance in serving moderate income homebuyers.

From 1972 through 1985 the private insurance industry insured $342 billion of new loans while the FHA did about $187 billion. In the more recent five years 1981 through 1985 private mortgage insurance companies increased that volume and insured over twice the total number of loans insured by the unsubsidized FHA program. During that period a large number of the firms in the mortgage lending business began to originate more conventional loans than FHA loans. Moreover, the conventional insured loan demonstrated it serves the bulk of those same homebuyers who in the past had to rely upon the government programs.

Members of MICA have been proud of their record in contributing to our national housing goals by using their capital and reserves to support those mortgage lenders operating in housing markets which have undergone serious economic stress. Despite our recent underwriting losses, our industry reserves are higher than they were four years ago, our ratings have been essentially retained and new capital has entered the industry.

We have supported housing, not only in good times by expanding homeownership and meeting the aggressive marketing activity of homebuilders, realtors and mortgage lenders, but also in bad times by protecting the reserves and assets of financial institutions and investors holding home mortgage debt. We believe that the way our industry has weathered the storm of the early 1980s lends credence to its staying power. The industry stepped up to the table to pay the price for aggressive risk-taking and is handling near catastrophic claims in economically depressed energy and agricultural states according to the terms of its policies.

Since 1983, mortgage insurers have paid out almost $3 billion in claims to FSLIC-insured thrift institutions, the Federal secondary market agencies, FNMA and FHLMC, state and local housing finance agencies and other mortgage investors. These funds provide a vital safety net and encourage future risk-taking by these lenders. In fact, since we take the first dollar of loss when a loan goes bad, mortgage insurers may be regarded as a primary reserve protecting the capital of these institutions and their ability to continue to operate safely. Despite this industry's massive underwriting losses and claim payments during the last several [illegible] industry has remained profitable with a positive net income.

The private mortgage insurance business has an admirable record of dynamic innovation. It introduced low downpayment 90% lending to conventional lenders in the 1960s and 95% loans in the 1970s. It insured the first conventional mortgage-backed pass-through securities and the first state housing revenue mortgage bonds. Members of MICA launched the first private mortgage security conduits as well. Variable rate mortgages, adjustable rate mortgages and the whole family of modern mortgage instruments at the low downpayment level owe existence in the marketplace to the willingness of private mortgage insurers to experiment and accept new and untested credit risks and interest rate risks. This effort was not without cost to the industry in the short run, but it benefited the mortgage finance system and homeownership.

Private mortgage insurers, we submit, have been catalysts for change in mortgage finance and are committed to playing this risk-taking role in the future. Thus, we welcome the opportunity to assist this Committee as it seeks to reset national housing policy for another generation of mortgage financiers and potential homeowners.

In the Subcommittee's letter of invitation the chairman requested our assessment of the President's housing and urban affairs proposal regarding housing and mortgage finance. MICA can provide market place views on four issues related to the mortgage insurance field.

What would a private vendor charge for FHA Insurance coverage?

To respond, we worked up a pricing model based on the following assumptions; 95% fixed rate loans with 100% coverage, a half life of 12 years, expense ratio of 20%, salvage value of 65%, risk to capital ratio 20 to 1 (S&Ps standard for AA rating), and a return on capital of 15% after tax. The claims incidence turned out to be 6.2 foreclosures per 100 loans.

These assumptions call for a single-premiums of 585 basis points. If an expense ratio of 30% is used (MICA members average in 1985 was 32.1%), the price goes to 660 basis points. Thus, the private sector equivalent suggested by the Administration of 500 basis points is in the ball park.

Second home loans.

The private market experience with second home loans has been good. Industry practice is to offer such coverage on 80% and 90% loans but not on 95% loans, and one loan to a customer.

Investor loans.

Most companies today do not provide coverage on investor loans. Loss experience in the early 1980's with such contracts ran 2 1/2 to 3 times higher than owner-occupied coverage. Industry underwriters now regard investor loans as more of a commercial risk than a consumer risk and inconsistent with our mission to put people in homes of their own. The few companies insuring such contracts charge significantly higher premiums for the coverage.

Including closing costs in mortgage debt.

No private companies will insure loans when closing costs are included in the mortgage debt. The practice in essence raises the loan-to-value ratio and reduces cash equity. Industry experience on over 80% loans indicates that risk increases disproportionally as the cash down payments is reduced. Some insurers are experimenting with the financing of a single mortgage insurance premium in loan contracts on 80% and 90% loans, but not over 95% LTV.

We are pleased to bring to the Subcommittee this report on current market practices and look forward to working with your staff in setting before you even more facts regarding what private insurers do and can do in making low down payment loans available to homebuyers without government involvement.

## Appendix

### The Report of the FHA Task Force

Modification of Section 203(b): The Task Force considered three types of proposals for altering FHA's one-to-four family insurance program:

- reducing competitive advantages over private insurers,
- limiting overlap in the types of borrowers served by FHA and private firms, and
- reinsuring FHA-insured loans.

The Task Force feels FHA should be sensitive to the competitive impact of it[illegible] [illegible]rams on the private sector; that FHA should be fully aware [illegible] who is served by its programs and by private insurers, and should carefully select appropriate recipients for federal assistance; and that possible reinsurance of FHA-insured loans deserves attention. Reinsurance is addressed within a comprehensive credit reform proposal in the Administration's FY 1988 Budget. The Task Force recommends further study of competitive advantages and borrower overlap issues by the Department of Housing and Urban Development.

### Originations of Long-Term Mortgage Loans on One-to-Four Family Homes by Type of Loan

(Dollars in Millions)

| Year | FHA-Insured | Privately-Insured | All Loans |
|---|---|---|---|
| 1972 | 8,456 | 9,158 | 75,864 |
| 1973 | 5,185 | 12,627 | 79,126 |
| 1974 | 4,532 | 9,220 | 67,508 |
| 1975 | 6,265 | 10,024 | 77,913 |
| 1976 | 6,998 | 14,600 | 112,785 |
| 1977 | 10,469 | 21,595 | 161,973 |
| 1978 | 14,581 | 27,327 | 185,036 |
| 1979 | 20,282 | 25,327 | 186,595 |
| 1980 | 14,958 | 19,035 | 133,765 |
| 1981 | 10,538 | 18,097 | 98,212 |
| 1982 | 11,482 | 18,753 | 96,951 |
| 1983 | 28,753 | 42,363 | 201,863 |
| 1984 | 16,600 | 63,405 | 203,705 |
| 1985 | 27,625 | 50,475 | 246,950 |

Source: Office of Financial Management, Department of Housing and Urban Development

The following four tables present some statistics about one-to-four family mortgages insured by FHA and private firms during calendar 1985. While national averages can conceal important local market distinctions, these figures suggest that the markets served by FHA and private insurance overlap.

### Selected Characteristics One-to-Four Family Insured Loans Originated in 1985

| | FHA Insured | Privately Insured |
|---|---|---|
| Loan-to-Value Ratio | 89.09% | 91.0[illegible]% |
| Mortgage Amount | $53,981 | $69,965 |
| Price of Home | $58,080 | $78,337 |
| Loan Term | 28.4 years | 28.0 years |

### Loan-to-Value Ratios One-to-Four Family Insured Loans Originated in 1985

(Percent)

| | FHA Insured | Privately Insured |
|---|---|---|
| 80% and below | 16.8 | 4.3 |
| 81 - 85% | 10.0 | 6.0 |
| 86 - 90% | 16.9 | 38.9 1/ |
| 91 - 95% | 19.4 | 50.8 2/ |
| Over 95% | 36.9 | - 3/ |

### Mortgage Amounts One-to-Four Family Insured Loans Originated in 1985

(Percent)

| | FHA Insured | Privately Insured |
|---|---|---|
| Under $40,000 | 25.6 | 18.2 |
| $40,000 - 47,999 | 16.1 | 11.5 |
| $48,000 - 53,999 | 12.4 | 8.9 |
| $54,000 - 59,999 | 11.1 | 9.3 |
| $60,000 and over | 34.8 4/ | 52.1 |

## Type of Property
## One-to-Four Family Insured Loans Originated in 1985

(Percent)

| | FHA Insured | Privately Insured |
|---|---|---|
| Owner Occupied Housing | 84.4 | 95.3 |
| Investment Property | 15.6 | 3.4 |
| Vacation Homes and Other | - 5/ | 1.3 |

1/ For FHA, this category includes ratios of 86 - 89%.
2/ For FHA, this category includes ratios of 90 - 95%.
3/ Private insurers are prevented by state regulations from insuring loans with ratios in excess of 95%.
4/ FHA insures one-family loans of up to $67,500, except up to $90,000 in designated high-cost areas, and still higher in Alaska and Hawaii. Amounts for two-to-four family loans are higher than for one-family loans.
5/ FHA does not collect data for this category. Vacation homes would be classified as owner-occupied housing.

Sources: Mortgage Insurance Companies of America, and Office of Financial Management, Department of Housing and Urban Development.

Mr. **French**. Well, perhaps it would be more logical for me to answer first since our members make about 95 percent of the FHA-VA loans.

Having gone through an operation last year in which we were receiving great pressure from the public to close their loans and at the same time suffering six interruptions with 56 days down time, I can only say that it is logical and certainly something that should be done for the program to be made permanent.

I see no purpose in FHA being temporary and during the first 35 years of my career in mortgage banking the issue of FHA's insuring authority lapsing didn't have to be met, at least not very often. I strongly support and our association also does that FHA be made permanent. It's not a relevant issue and really I can't understand how it has come into play in our Congress.

Senator **Cranston**. Mr. Kendall.

Mr. **Kendall**. I think the concept of holding housing hostage and dynamic deregulated markets hostage to action by congressional bodies is perhaps yesterday's way of controlling programs. I think, however, having said that, that this question of a private-public partnership that the Mortgage Bankers Association subscribes to and that we subscribe to still requires the Congress from time to time to reset the dials. In 1949 in the Housing Act, in essence, what a predecessor committee of this body said, was that the private sector shall be preferred to the public; and the challenge, I think, confronting the committee members, as they move forward, is to test through new facts, and through understanding of the markets, how those dials can be reset.

You are not going to get a business organization to come here and say, "We have all kind of capital and we will, therefore, commit to do all things." That's not the way the private-public partnership frankly has worked. In 1970, in the Emergency Housing Act, Senator Sparkman looked down at people who sat at this table and after his committee and the Congress authorized Freddie Mac and Fannie Mae to enter the conventional lending area, he said, "For high ratio lending, I think for the safety of the secondary markets we ought to have this credit enhanced and one way to enhance that credit is to use private mortgage insurance."

At that point in time the private mortgage insurance had assets of $150 million—that's 1970--and insured 50,000 loans a year. By 1973, the industry had moved to $500 million of assets and was doing 500,000 loans a year. People like John Horne and Max Karl went out and got the capital to accomplish this expansion. In addition, a whole group of new companies came into the industry. And simply because Congress said, "Let's set the dials and see what can happen."

I believe that that kind of opportunity to place increased reliance upon private firms exists today and can be realized not by telling FHA to do this or telling private firms to do that, but by just moving the government provided incentives enough to see what will happen.

Senator **Cranston**. Thank you very much.

## STATEMENT BY SENATOR ALAN J. DIXON

Senator DIXON. Mr. Chairman, I am pleased that this subcommittee is getting an early start in giving serious consideration to a 1987 housing and urban affairs authorization bill.

Four years have passed since the House and Senate were able to agree and act on a major housing bill. These issues are far too important to directly or indirectly affect the lives of too many American citizens for us not to move expeditiously and yet responsively.

I would like to see this subcommittee act on a housing bill which would reauthorize such significant and successful programs as community development block grants, urban development action grants, low-income housing assistance, and rural housing loans and grants. Additionally, I would like to see this subcommittee reject secondary mortgage market user fees.

Mr. Chairman, I feel confident that this subcommittee will approve legislation to address the continuing problems of hunger and homelessness. I call to your attention S. 436, a bill which along with Senators Heinz and Cranston, I introduced on February 3, 1987. This legislation would commit the Federal Government to accepting a significant role in helping to alleviate the suffering of millions of homeless persons.

I also have special interest in another issue which is before this subcommittee, tenant management of public housing. On January 6, 1987, along with Senators Glenn, Danforth, and Kennedy, I introduced S. 243, the Public Housing Resident Management Act of 1987. This legislation would provide an alternative to residents of public housing to manage their own living conditions.

Mr. Chairman, I look forward to hearing testimony from these expert witnesses so that this subcommittee can finalize its 1987 housing proposal.

Thank you, Mr. Chairman.

Senator CRANSTON. Senator Heinz, do you have any questions or statement?

Senator HEINZ. Mr. Chairman, first let me just ask unanimous consent that my opening statement be placed in the record at the appropriate point.

Senator CRANSTON. Of course.

## STATEMENT OF SENATOR HEINZ

Senator HEINZ. I just want to observe, Mr. Chairman, that this is an initiative on your part to get a housing bill. We haven't had a housing bill for quite a while and you are to be commended for your early action on this.

We have not had a housing bill since 1983 and, as a result, many of our housing and community development programs have survived on a hand-to-mouth basis at best.

We did come last year very close to passing a housing bill. We had a good bipartisan bill but time ran out on us.

This year's bill, which is S. 2507, forms a very good starting point, at least in this Senator's judgment, for our work this year. It will reauthorize not only the major HUD programs, assisted housing, CDBG, UDAG, to name a few, but it would also extend financing authority for vital mortgage financing institutions, FHA, VA, Fannie Mae, Ginnie Mae, Freddie Mac, and it would provide for a desperately needed expansion of Federal assistance for the homeless.

I will be brief, but I want to make this point. For once this year, the home builders and the housing market has had a relatively good year. It may not have been a record breaker, but it's been a good year, particularly if you compare it to most of the years that have gone before it, the last 4 or 5. We have some witnesses who have some experience in that regard.

And we want our housing and home building industry to have good years, but at the same time, we have to enact legislation this year that arrests the alarming trend of funding cuts that Federal housing and community development programs have sustained in recent years.

We all know the necessity of trying to control Federal spending. Well, the Congress has cut assisted housing and UDAG by more than two-thirds—I repeat, two-thirds—over the last 5 years, along with other, albeit somewhat less significant, cuts in other programs. And as a partial result, in spite of the relatively good housing years for the private sector, we have now almost 1 million people on waiting lists for public housing and we have a homeless population and you see them on the streets that number in the hundreds of thousands.

So we have a job to do and it's overdue that we do it and to that end, Mr. Chairman, I pledge my support. I think what you're doing is not only necessary and responsible but quite urgent, and I thank you for your leadership in this area.

Senator CRANSTON. Thank you very, very much. I appreciate that a great deal and, together, we'll get a lot done.

I thank you, gentlemen, very much. We will now call the next witnesses.

The witnesses from panel 3 will please come forward.

Senator HEINZ. Mr. Chairman, while the witnesses are taking their seats, I have to apologize but I'm going to have to go over to the Senate floor. Senator Rockefeller and myself and others are having a special order on displaced workers and within a few minutes I will have to go over there and begin to conduct that colliquy, and my reason for being late was that a number of us—Senator Pell, Senator Chafee, Senator Mitchell and I had a press conference to denounce the oil import fee legislation which keeps—and I don't know which side the Senator from California is on so I'd best be careful, but that legislation keeps raising its ugly head. I would describe the oil import fee as either the Home Owners and Senior Citizens Disenfranchisement Act or the Plant Closing Act of 1987 for what that oil import fee would do to both our consumers, our senior citizens, our home owners and our industries that rely on having a competitive source of energy and that's the reason I was tardy in getting here.

## PREPARED STATEMENT BY SENATOR JOHN HEINZ

I am pleased to be here this morning for the first of our three hearings regarding reauthorization of our Federal housing and community development programs. Let me first say I am pleased to see the subcommittee getting off to a fast start this year on these important issues. I believe that we must move a reauthorization bill early this year, to put the programs on solid footing and enact certain needed reforms. As all of you know, we have not passed a housing bill since 1983. For too many years, housing and community development programs have survived through annual infusions of funding in the appropriations bills. Last year, we came very close to passing a housing bill—in fact this Committee did unanimously report a bill—but, as we all remember, time ran out.

I believe that last year's bill—S. 2507—forms a good starting point for our work this year. It would reauthorize all of the major HUD programs—assisted housing, Community Development Block grants, urban development action grants, to name a few. It would extend financing authority for vital mortgage financing institutions—FHA, VA, Ginnie Mae, Fannie Mae, and Freddie Mac. It would also provide for a desperately needed expansion of Federal assistance to the homeless.

Although this bill was more modest than many of us would have liked, I think it's important to note that it represented a bipartisan compromise that the members of this Committee could agree on. I am confident that we will continue to have this bipartisan cooperation in the 100th Congress. In fact, already this year I have joined members of this Committee from both parties in resolutions disapproving of proposed rescissions and deferrals in CDBG, UDAG, and HoDAG, as well as introducing homeless legislation.

I know that we have a full list of witnesses this morning, so I want to keep my remarks brief. I do want to leave with you one thought. We must enact legislation this year that arrests the alarming trend of funding cuts that Federal housing and community development programs have sustained in recent years. We have cut assisted housing and UDAG by more than two-thirds over the past 5 years, and have made lesser, albeit significant cuts in other HUD programs. We now have almost a million people on waiting lists for public housing, and we have a homeless population that numbers hundreds of thousands of Americans. These people deserve Federal help, and I pledge to work with all of you here today, and the members of our Committee, to enact a reauthorization bill early in this Congress that will help provide this help. I believe that we can make important strides in this area without compromising the need to reduce the budget deficit.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you very much. I know you're a busy man today and all days.

I welcome the representatives on our third panel and our first witness will be Thomas F. McHugh, Executive Director, Rochester Housing Authority, Rochester, New York; National Association of Housing and Redevelopment Officials. I want to again remind you that your full statements will go in the record. Please try and hold your opening statements to 5 minutes, summarizing what you think are the most important points for us to hear and please watch for the red light which tells you when your 5 minutes are up. Mr. McHugh.

## STATEMENT OF THOMAS F. McHUGH, EXECUTIVE DIRECTOR, ROCHESTER HOUSING AUTHORITY, ROCHESTER, NY, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Mr. McHUGH. Thank you, Mr. Chairman. I would like to take this opportunity on behalf of NAHRO to congratulate you on your assumption of the chair of this subcommittee and indicate we are willing to assist you in any way possible.

I come here today with a strong recommendation that you build on the success of our housing and community development programs. These programs are for housing low-income families, improving neighborhoods for low-income families and revitalizing older commercial and industrial centers. These accomplishments have been achieved for two primary reasons: first, you and your congressional colleagues have substantially ignored the message from this administration to drastically cut or eliminate these programs. We applaud you for the support you have given us.

Second, the Nation's housing and community development programs are administered by colleagues of mine who are a group of dedicated, competent, and creative individuals who continue to accomplish much, even with far less.

I come here today not to ask you for new major programs. I come seeking reauthorization at reasonable levels of the existing successful housing and community development programs so that we can continue the struggle to meet our national goals. We acknowledge the deficit problem and share your belief that this country must reduce this growing large Federal deficit. However, we have done our share in that our programs have taken disproportionate cuts over the last 6 years. Assisted housing programs have been cut by 70 percent, UDAG by two-thirds, and CDBG by 30 percent. These cuts are worsened by the effects of tax reform on housing and community development. One of the very visible prices paid for these cuts is the significant increase in homelessness, particularly of families with children, and our current lack of resources and programs to deal adequately with this problem. We cannot afford to further reduce our programs in the name of deficit reduction if we are to continue in the pursuit of a decent home and a suitable living environment for every American.

## LEVEL OF SATISFACTION OF RECIPIENTS

I would like to discuss the level of satisfaction and appreciation that exists for these programs which you authorized. If you talk to recipients of housing assistance around this country as I have, you will find that the vast majority of these persons receiving assistance, be it rental certificates or units in a public housing project, are pleased that they have the opportunity to live in a unit which they can afford. They are also generally satisfied with the program. This is true despite the isolated horror stories and deplorable condition of a relatively few units out of an inventory of 1.3 million units. These few cases clearly do not represent the majority of housing units in our programs which are serving our low-income population.

As further evidence of this satisfaction level, there are hundreds of thousands of families on waiting lists for housing. A NAHRO survey of agencies managing one-half of the public housing units in the country showed waiting lists in those agencies of 396,000 for public housing and 392,000 for section 8 certificates and vouchers. In my own city of Rochester, we closed our waiting lists last December with 8,000 families included. A family applying for a two or three bedroom unit today, for example, would have to wait nearly 20 years based upon our current turnover rate and our board felt we should not mislead prospective residents into thinking they could get housing assistance sooner by keeping the lists open.

The same level of satisfaction can be found in many neighborhoods being assisted with community development dollars. Blighted and deteriorated neighborhoods are undergoing a transformation so that there is a better environment for the low, moderate income and other residents. Jobs by the thousands are being created in downtowns across the country, stimulated by CDBG and UDAG dollars.

In Rochester, for example, over the last 8 years, including present UDAG projects underway, nearly 4,300 new jobs have been created because of UDAG dollars.

The successes of these programs and satisfaction level notwithstanding, you should know that the industry is taking steps on its own to improve the management and administration of these programs. NAHRO has developed the management evaluation and improvement system [MEIS] which is designed to assist housing authorities in analyzing their operations and taking the steps necessary to raise the standard of performance of their local agencies.

Another area I would like to touch on today is the significantly increasing contribution of States and local governments to the housing and community development programs. In my own State of New York, for example, $50 million has been allocated for each of the last 2 years for the trust fund created to address vacant or underutilized units, and the affordable housing program for the construction of new single family housing units. In addition, $70 million has been approved for the last 2 years for homeless housing.

To address the ever-increasing need for assistance among low- and moderate-income families, this increased contribution of other levels of government and the private sector should not be used to justify a reduction in the continuing contribution and participation of the Federal Government.

The program reauthorizations and program provisions included in S. 2507, as reported last year, are important to our membership and will contribute significantly to the goal of providing decent housing for low income persons and improving their neighborhoods. Some of the program provisions which NAHRO strongly supports are:

One, changes to the UDAG selection criteria;

Two, provisions relating to the contract term, administrative fee, and the fair market rents associated with section 8 existing housing program.

Three, homeless provisions; and

Four, prohibition of risk premium and loan fees for the section 312 loan program.

In response to your question concerning our assessment of the housing and urban affairs proposals included in the President's fiscal year 1988 budget, NAHRO feels very strongly that your subcommittee should dismiss the proposals as unrealistic, unresponsive to the needs, and damaging to the efforts underway to assist our communities and their low- and moderate-income residents. We are discouraged—no, outraged, that the administration has submitted a budget which continues the retreat from the long-standing Federal commitment to provide decent housing for lower income people and to the revitalization of deteriorating neighborhoods.

We strongly urge this subcommittee to exercise the leadership necessary to gain support for these authorizing levels for the programs that you have supported in the past. Our cities and their low-income residents will be appreciative of this effort on your part.

Thank you, Mr. Chairman.

[The complete prepared statement of Thomas F. McHugh and NAHRO position papers follow:]

NAHRO

Statement of

THOMAS F. McHUGH

Executive Director of the Rochester, New York,
Housing Authority

On Behalf of

National Association of Housing and Redevelopment Officials

Before the

Subcommittee on Housing and Urban Affairs
Senate Committee on Banking, Housing
and Urban Affairs

February 17, 1987

Mr. Chairman, I am Thomas F. McHugh, Executive Director of the Rochester, New York, Housing Authority, representing NAHRO, a 53-year-old association of professionals who administer low-income housing, neighborhood revitalization, and community development programs in localities across the country. We represent over 5,600 individuals and 2,300 agencies involved in carrying out these programs. I appreciate the opportunity to appear before you today.

I want to take this opportunity on behalf of NAHRO to congratulate you, Senator Cranston, on your assumption of the Chair of this Subcommittee. We are pleased to have a person with your strong record of support of our programs and efforts chair this Subcommittee. NAHRO as an organization and its members as individuals stand ready to assist you in any way we can.

I come here today with a strong recommendation that you build on the success of our housing and community development programs. These programs are housing low-income families, improving neighborhoods for low-income families, and revitalizing older commercial and industrial centers. These accomplishments have been achieved for two primary reasons. First, you and your congressional colleagues have substantially ignored the message from this Administration to drastically cut or eliminate these programs. We applaud you for the support you have given us. Secondly, the nation's housing and community development programs are administered by colleagues of mine who are a group of dedicated, competent, and creative individuals who continue to accomplish much, even with far less.

I come here today not to ask you for new major programs. I come seeking reauthorization at reasonable levels of the existing successful housing and community development programs so that we can continue the struggle to meet our national goals. We acknowledge the deficit problem and share your belief that this country must reduce this growing large federal deficit. However, we have done our share in that our programs have taken disproportionate cuts over the last six years. Assisted housing programs have been cut by 70 percent, UDAG by two-thirds, and CDBG by 30 percent. These cuts are worsened by the effects of tax reform on housing and community development. One of the very visible prices paid for these cuts is the significant increase in homelessness, particularly of families with children, and our current lack of resources and programs to deal adequately with this problem. We cannot afford to further reduce our programs in the name of deficit reduction if we are to continue in the pursuit of a decent home and a suitable living environment for every American.

NAHRO and others have provided data on the growing need for low-income housing assistance -- both new units and rental assistance for existing units. In this connection, we are submitting for the record an issue paper entitled "Housing Needs to the Year 2000 - Problems and Assistance for America's Poor." You should take particular note of the decline in affordable housing for families with incomes less than $10,000 and the projected increase in the number of these families. Also, only 20 percent of eligible families are currently being served. Rather than focusing on these profound needs, I would like to discuss another aspect of our programs that is frequently overlooked; that is the level of satisfaction and

appreciation that exists for these programs which you authorize. If you talk to recipients of housing assistance around this country as I have, you will find that the vast majority of these persons receiving assistance, be it rental certificates or units in a public housing project, are pleased that they have the opportunity to live in a unit which they can afford. They are also generally satisfied with the program. This is true despite the isolated horror stories and deplorable condition of a relatively few units out of an inventory of 1.3 million units. These few cases clearly do not represent the majority of housing units in our programs which are serving our low-income population.

As further evidence of this satisfaction level, there are hundreds of thousands of families on waiting lists for housing. A NAHRO survey of agencies managing one-half of the public housing units in the country showed waiting lists in those agencies of 396,000 for public housing and 392,000 for Section 8 certificates and vouchers. In my own city of Rochester, we closed our waiting lists last December with 8,000 families included. A family on my waiting list could have to wait 10 to 12 years and our Board felt we should not mislead prospective residents into thinking they could get housing assistance sooner by keeping the lists open.

The same level of satisfaction can be found in many neighborhoods being assisted with community development dollars, where, for example, families are truly appreciative of receiving rehabilitation assistance to repair their homes so that they meet the local codes. Blighted and deteriorated neighborhoods are undergoing a transformation so that there is a better environment for the low-, moderate-income, and other residents. Jobs by the thousands are being created in downtowns across the country, stimulated by CDBG and UDAG dollars. HUD's Annual Consolidated Report indicates that projects funded in FY 1985 alone have projected over 50,000 new, permanent jobs and over 67,000 construction jobs. These programs are working and need to be continued.

The successes of these programs and satisfaction level notwithstanding, you should know that the industry is taking steps on its own to improve the management and administration of these programs. NAHRO has developed the Management Evaluation and Improvement System (MEIS) which is designed to assist housing authorities in analyzing their operations and taking the steps necessary to raise the standard of performance of their local agencies. The training program which is a part of MEIS has been growing and is successfully reaching hundreds of public housing employees around the country. HUD has recognized the value of this program and is incorporating major elements of it in the HUD effort to develop a program of regulatory decontrol of public housing agencies which have strong performance records.

Another area I'd like to touch on today is the significantly increasing contribution of states and local governments to the housing and community development programs. In addition, we are also seeking an increased level of participation and contribution by the private sector to our programs. This partnership has been stimulated by the decreased federal assistance and in some cases is long overdue. To address the ever-increasing need for assistance among low- and moderate-income families, this increased contribution of other levels of government and the private sector should not be used to justify a reduction in the continuing contribution and

participation of the federal government. We truly need to have a strong partnership among all levels of government (i.e., federal, state, local) and the private sector and user groups to attack the problems of our communities.

The program reauthorizations and program provisions included in S. 2507, as reported last year, are important to our membership and will contribute significantly to the goal of providing decent housing for low-income persons and improving their neighborhoods. Some of the program provisions which NAHRO strongly supports are:

1. Changes to the UDAG selection criteria.
2. Provisions relating to the contract term, administrative fee, and the Fair Market Rents associated with the Section 8 Existing housing program.
3. Homeless provisions.
4. Prohibition of risk premium and loan fees for the Section 312 Loan program.

For your information, I am attaching to this testimony and wish included in the record NAHRO position papers for 1987. These papers include specific program recommendations we urge you to add to the bill you mark up next month. We would be very happy to discuss these in detail with you and/or your staff prior to that time.

In response tyo your question concerning our assessment of the housing and urban affairs proposals included in the President's Fiscal Year 1988 budget, NAHRO feels very strongly that your Subcommittee should dismiss the proposals as unrealistic, unresponsive to the needs, and damaging to the efforts underway to assist our communities and their low- and moderate-income residents. We are discouraged, no outraged, that the Administration has submitted a budget which continues the retreat from the long-standing federal commitment to provide decent housing for lower income people and to the revitalization of deteriorating neighborhoods.

We strongly urge this Subcommittee to exercise the leadership necessary to gain support for these authorizing levels for the programs that you have supported in the past. Our cities and their low- and moderate-income residents will be appreciative of this effort on your part.

Thank you for the opportunity to present our views. I will be very happy to answer any questions you might have.

NAHRO

# The NAHRO Position Papers: An Overview

The last several years have seen a retreat from any significant federal role in funding housing and community development programs. The goal of a decent home and a suitable living environment for every American family is no longer evident in national policy. Yet, needs remain high; the rental housing situation for low income Americans is approaching crisis proportions.

Between 1974 and 1983 the number of rental households earning under $10,000 annually increased by three million. At the same time the number of rental units affordable to these households declined by two million. Two-thirds of the 23 million low income households currently pay excessive rents or live in physically inadequate structures. The situation is worse for renters, with 80 percent of low income households facing these conditions.

A changing economy has created losers as well as winners, exacerbating conditions of distress in many cities. Despite the physical improvements of the last 30 years, nearly 24 percent of renters and 19 percent of homeowners continue to live in neighborhoods plagued by abandoned buildings, crime, or other undesirable conditions. And in our larger cities, evidence of the emergence of an urban underclass—poor, uneducated, unskilled, and with unstable families—presents intractable problems for policy makers.

On the horizon are even greater threats. The Tax Reform Act of 1986 eliminated or curtailed most federal tax incentives for private investment in low income housing and redevelopment. And much of the existing privately owned, federally assisted housing will be at risk over the next decade as long-term contracts for federal subsidies begin to expire, and as expiration of federally assisted mortgage restrictions allows owners to opt out of low income occupancy requirements.

While needs have increased, federal support has declined. New budget authority for the Department of Housing and Urban Development's assisted housing programs has been cut by over 60 percent since 1980. New unit reservations for construction and substantial rehabilitation declined from 129,490 units in 1980 to 16,500 units in 1987. Appropriations for the Urban Development Action Grant program have dropped by two-thirds. The major remaining community development program, Community Development Block Grants, has been forced to absorb both reductions in dollars and increased demands because of cuts in other programs.

In 1987, the National Association of Housing and Redevelopment Officials advocates continuing existing programs to at least minimally address pressing needs while beginning to develop more complete, longer term solutions. Reflecting the continuing dilemma of an unresolved federal deficit, NAHRO does not call for major program expansions but proposes a workable and reasonable legislative agenda for 1987. We cannot, however, allow the poor and ill-housed to be further sacrificed to the federal budget knife. And we must begin to rebuild the federal commitment to housing and to our communities before the problems overwhelm our capacity to respond. To accomplish these objectives NAHRO supports legislative action in four major areas in 1987.

1. Preserve and use the existing housing stock (including the 1.3 million public housing units) by providing adequate funds for rehabilitation; adequate funds for maintenance, operations, and upgrading of substandard or outmoded units; and by ensuring that regulatory and legislative policies support rather than hinder effective program administration.
2. Maintain or increase funding for additional low and moderate income housing units funded by the Department of Housing and Urban Development and the Farmers Home Administration.
3. Continue at modestly increased levels basic funding for community development programs.
4. Seek technical corrections to retain workable federal tax incentives that support housing and community development.

NAHRO also seeks to begin the process of developing a national housing and community development policy that includes a continuing federal role in the commitment to a decent home and a suitable living environment for every American family.

The following position papers present specific NAHRO proposals for legislative action in 1987. Contact NAHRO for additional information on any position paper.

## FUNDING LEVELS FOR SELECTED HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

| PROGRAM | FY 1981 | FY 1987 | NAHRO POSITION FY 1988 |
|---|---|---|---|
| Public Housing Units, Conventional | 31,834 | 2,500 | 20,000 |
| Public Housing Units, Indian | 3,128 | 2,000 | 2,000 |
| Section 202 Units | 15,166 | 12,000 | 12,000 |
| Section 8 Existing Certificates | 90,354 | 10,000 | 60,000 |
| Section 8 Moderate Rehab Certificates | 19,916 | 7,500 | 20,000 |
| Rural Housing Preservation Grants | — | $19.4 million | $19.4 million |
| FmHA Section 515 (New) | $843 million | $669 million | $669 million |
| FmHA Section 502 (New) | $1.4 billion | $1.3 billion | $1.3 billion |
| FmHA Section 504 (Repair) | $43 million | $22 million | $22 million |
| Public Housing Operating Subsidy | $1.1 billion | $1.350 billion | $1.544 billion |
| Public Housing Modernization[1] | $1.7 billion | $1.437 billion | $1.437 billion |
| Community Development Block Grants | $3.7 billion | $3.0 billion | $3.12 billion |
| Urban Development Action Grants | $675 million | $225 million | $330 million |
| Housing Development Grants | — | $99.6 million | $99.6 million |
| Section 312 Loans[2] | $130 million | $91 million | $96 million |
| Rental Rehabilitation Program | — | $200 million | $150 million |
| Urban Homesteading[3] | $10 million | $12 million | $15 million |

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[1] The 1987 and 1988 levels both assume conversion to direct capital grants.

[2] The dollar level reflects estimated demand from repayments. Section 312 has not had a direct appropriation since 1980.

[3] Urban Homesteading was funded with carryover in FY 1981; the level reflects expenditures and obligations.

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NAHRO

# Community Development Block Grant Program

## The Issue

The Community Development Block Grant (CDBG) Program will again be targeted for cuts and program modifications for FY 1988. Legislation is expected in the 100th Congress to expand eligible activities, alter the distribution formula to drop certain entitlement communities, and alter low/moderate income benefit requirements. An attempt also will be made to terminate Section 108 Loan Guarantees, a companion program used to finance slum and blight clearance.

## The NAHRO Position

- NAHRO advocates a three-year reauthorization of at least $3.12 billion annually.
- NAHRO supports continuation of the major CDBG program elements under current law, including:
  1. The 51 percent low and moderate income benefit requirement;
  2. The entitlement grantee distribution formula;
  3. The 70 percent entitlement/30 percent state allocation;
  4. The current authorized eligible activities; and
  5. Requirements for a local community development plan and a housing assistance plan.
- NAHRO urges retention of the companion Section 108 Loan Guarantee Program at a minimum level of $150 million annually.
- NAHRO opposes turning CDBG into a catch-all program through expanding eligible activities without increased funding as urban aid, housing, and other program funding is terminated or reduced.

## The Facts

The most recent three-year authorization for CDBG expired September 30, 1986. Congress funded the FY 1987 program at a $3 billion level via a Continuing Resolution. Although this is a 10 percent cut from the FY 1985 level, it is substantially more than the $2.5 billion funding level sought by the Administration. In addition to outright cuts, the value of the CDBG dollar has declined by at least half in the past decade because of inflation, additional grantees, expanded eligible activities, and increased demands caused by cuts in other urban programs. In FY 1987, there are 837 entitlement communities, a 37 percent increase since the program began in 1975. Small cities awards now number about 2,500 annually, but the average grant size has been slashed in half.

American communities will continue to struggle with a host of challenges—fiscal constraints, unemployment, economic restructuring, deteriorating infrastructure, and shortages of decent, affordable housing for its citizens. To address these complex problems, communities devise multi-stage plans using CDBG to create liveable neighborhoods, housing opportunities and new jobs. Significant private and other public investment is staged to leverage the CDBG resources. A multi-year reauthorization of CDBG at adequate levels is needed to plan comprehensive, phased revitalization projects that attack the long-standing root causes of decline and economic upheaval.

Collectively, grantees achieve an overall 90 percent benefit to low and moderate income persons (those at or below 80 percent of median income), far above the overall 51 percent benefit that Congress mandated. Current practice allows local flexibility to vary low/moderate benefit between 51 percent and 100 percent for individual projects, as long as all statutory requirements are met. Grantees have demonstrated that this flexibility does not lead to wholesale abandonment of low/moderate income targeting. Therefore, NAHRO believes that changing the benefit requirement is unnecessary.

The CDBG program has three statutory objectives: 1) primarily benefit low and moderate income persons; 2) remove slums and blight; and 3) meet other urgent needs. In the 1983 Housing and Urban/Rural Recovery Act, Congress mandated that low/moderate income benefit be the primary objective of the program. Regulations implementing this and other statutory changes contained in the legislation four years ago have not been issued by HUD. Regulations are essential for responsible program management and to ensure that congressional intent is carried out.

Seventy percent of CDBG funds are distributed directly by HUD to metropolitan cities and urban counties (entitlements) via a needs formula based on poverty, population, overcrowded housing, growth lag, and age of housing stock. This formula is highly targeted, with the most distressed cities receiving 3.7 times more funding than the least distressed. Thirty percent of CDBG funds go to 47 states for distribution to small cities based on state-adopted priorities and selection systems. HUD continues to administer the program in three states: Hawaii, Maryland, and New York.

The companion Section 108 Loan Guarantee Program is a financing mechanism used by cities primarily to carry out large-scale development projects. Most projects involve property acquisition, related site improvements, and relocation. Grantees secure Section 108 loans against future CDBG allocations. Although the Administration sought to terminate the program, Congress set a $150 million program ceiling for FY 1987. In 1986, Congress mandated privatization of Section 108 financing in lieu of going through the Federal Financing Bank. Since privatization makes this program an off-budget item, consideration should be given to raising the Section 108 ceiling if demand warrants.

NAHRO

# Rental Housing Production for Lower Income Households

## The Issue

Federal policy is creating a rental housing crisis for the poor. At a time of growing need, federal policy is reducing the number of rental units available to lower income persons. Currently, only one-fifth of eligible very low income households are served by assisted housing programs. The number of very low income families is expected to increase by 5.7 million over the next 15 years.

Direct federal funding for new or substantially rehabilitated units dropped from 129,490 units in 1980 to 16,500 units in 1987. The Tax Reform Act of 1986 is projected to decrease the annual supply of rental housing by up to 200,000 units while increasing rents as much as 20 percent. Over the next decade, up to 800,000 low income rental housing units could be lost from the stock as investors are able to prepay federally insured mortgages, thus ending low income occupancy requirements.

## The NAHRO Position

- NAHRO advocates a re-examination of federal housing policy in 1987 to renew the federal commitment to meet the growing housing problem.
- NAHRO advocates the continuation of all existing low income rental housing production programs. NAHRO supports at least the following minimal levels for FY 1988.

| | |
|---|---|
| Public Housing, Conventional | 20,000 units<br>(5,000 units for elderly) |
| Public Housing, Indian | 2,000 units |
| Section 202 | 12,000 units |
| Housing Development Grants (HoDAG) | $99.6 million |
| FmHA Section 515 | $669 million |

## The Facts

The available data clearly indicate that, if current trends continue, we will be facing a rental housing crisis for low income persons within the next decade.

- Between 1974 and 1983 the number of rental households earning under $10,000 increased by 3 million. At the same time units affordable to this group declined by 2 million.
- Two-thirds of the 23 million very low income households currently pay excessive rents or live in physically inadequate structures; 80 percent of very low income renters face these problems.
- The number of very low income households facing housing problems will increase by 3 million to 5 million over the next 15 years.

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This crisis is caused in large part by federal withdrawal from a substantial role in housing while the needs of the poor increase. New federally subsidized rental housing units declined by 80 percent between 1980 and 1987, while new public housing units declined by almost 90 percent. Existing subsidized units for the poor are also threatened. The General Accounting Office estimates that up to 90 percent of the 1.9 million privately owned, federally assisted rental units could be lost from the low income rental housing inventory as project-based Section 8 Certificate contracts and federal mortgage prepayment restrictions expire.

The new tax law, by removing tax benefits from much of the existing low income inventory, could contribute to the conversion of subsidized units to market rate units. The law also removed incentives for private investment in new low income housing, replacing them with an untested low income rental housing tax credit. And by reducing the overall supply of new rental housing, the resulting upward pressure on rents will particularly affect low income households. Even a 5 percent increase in rents could outweigh the income tax benefits for lower income families.

The evidence is clear. Current subsidies only reach one-fifth of very low income households. The number of poor households is growing while the stock of decent and affordable housing is declining. Federal subsidies to produce low income housing have plummeted. Absent a change in federal policy, a worsening low income rental housing crisis is inevitable.

NAHRO

# Section 8 Existing Certificate Housing Assistance Program

## The Issue

The Section 8 Existing Housing Certificate Program has proven to be a valuable resource to provide decent, affordable housing for nearly one million low income families. The proposed budget for FY 1988 will eliminate this proven program and replace it with a system of housing vouchers, a program still in the demonstration phase. Early reports from the voucher demonstration raise serious public policy questions that warrant further study.

The Administration also has proposed regulatory changes that threaten effective local administration of the Section 8 program.

## The NAHRO Position

- NAHRO advocates funding for a minimum of 60,000 Section 8 Existing certificates in FY 1988.
- To support effective administration of the program, NAHRO also advocates the following legislative actions:
    1. Establish the Section 8 Certificate (both Existing and Moderate Rehabilitation) and voucher administrative fee at 8.5 percent of the two-bedroom Fair Market Rent.
    2. Require HUD to make an annual analysis and adjustment of Fair Market Rents.
    3. Require HUD to maintain the existing appeals process for adjustments in Fair Market Rents.
    4. Clarify the financial obligations to PHAs resulting from portability of vouchers from one PHA jurisdiction to another, and limit the obligations of a PHA receiving a voucher commitment to those established under the certificate program.
- NAHRO urges HUD to use results of the voucher demonstration to examine the actual costs to the federal government of the voucher program and compare those costs to the certificate program. NAHRO also urges HUD to report on the need for an annual adjustment in the payment standard.

## The Facts

The Section 8 Existing Certificate Program was designed to use available local housing resources to provide decent, affordable private housing to lower income families. Rental units must meet federal standards for safety and quality; rents for the units must fall within the range of Fair Market Rents as established by HUD. The federal government pays the difference between 30 percent of the tenant's income and the actual rent.

Local housing authorities perform a variety of functions to make the program work. These include informing eligible families of the availability of assistance; finding owners who will make units available under the program; receiving applications and screening applicants for eligibility; inspecting units prior to occupancy and periodically thereafter for conformance to program standards; determining the reasonableness of rents; reviewing and approving leases; making payments to owners; conducting hearings to resolve landlord/tenant disputes; and periodically reviewing family eligibility and the appropriate amount of rental contribution required from the family. For these services the housing authority receives an administrative fee.

In 1985, HUD reduced this fee from 8.5 percent of the two-bedroom Fair Market Rent to 7.65 percent. In 1986, HUD proposed to reduce the fee to 6.5 percent until Congress barred any further reduction in the administrative fee. Reducing the fee to 7.65 percent cost housing authorities over $32 million in administrative funds. A further reduction to 6.5 percent would cost an additional $41 million in funds essential to proper program administration. The cuts have been proposed without regard to actual program administration costs; they have not been accompanied by any reduction of administrative requirements.

HUD also has failed to make required annual adjustments in Fair Market Rents. As authorized rents fail to reflect actual local rents, owners refuse to participate in the program. Proposals under review at HUD also would limit a housing authority's ability to appeal FMRs when they do not fairly reflect actual local rents. PHAs would be able to appeal only if they could demonstrate that 50 percent or more of their certificates were not being used.

NAHRO

# Public Housing
# Performance Funding System

## The Issue

Every year public housing authorities (PHAs) confront the threat of reduced and inadequate levels of funding for operations. While funding levels based on the existing Performance Funding System (PFS) are adequate under the formula, PHAs face extraordinary costs not accounted for in the PFS formula. These costs are creating financial difficulties for many PHAs. Unless there are major changes in the PFS formula, it will produce inadequate funds, severely affecting the ability of PHAs to deliver and maintain decent, safe and sanitary housing for the millions of low income families who live in public housing.

## The NAHRO Position

- NAHRO advocates an FY 1988 appropriation of $1.544 billion for the Performance Funding System under the current formula.
- NAHRO also advocates modifications to the current PFS formula. While HUD made piecemeal modifications to the system in 1985, other changes are needed to make the system a balanced and comprehensive approach to funding.
    1. A formal expense adjustment process is needed that will: a) allow PHAs to appeal those costs not covered by the initial PFS base year calculation; and b) allow annual adjustments for costs beyond control or other unforeseen factors affecting a PHA's operating budget.
    2. The PFS formula should be adjusted to factor in the increased insurance costs that PHAs continue to experience.
    3. "Other income" should be eliminated from the operating subsidy calculation. This would encourage PHAs to be better managers and allow PHAs to realize additional income. Added income would assist PHAs in providing some of the needed social programs and maintenance services that have been reduced over the years because of the decline in federal dollars and changes in program policies that reduce income.
    4. A minimum operating reserve level should be authorized, equal to 20 percent of the annual routine expense budget. PHAs should be able to receive funding adjustments to maintain this level.

## The Facts

Congress fully funded the PFS in FY 1987 at $1.53 billion through a combination of appropriations ($1.35 billion) and carryover of prior year excess funds ($175 million). While there has been full funding of the subsidy over the past five years, PHAs are confronting increased operating costs because of expenditures not originally factored into the PFS formula.

The PFS formula approach was initially developed in the early 1970s around cost considerations that are no longer accurate in today's environment. Since then, such conditions as changes in tenant population or authority size (which increase service needs), and changing neighborhood conditions (which raise maintenance and security costs) have resulted in higher operating costs. Moreover, PFS formula adjustments did not include routine capital replacement costs for standard items such as refrigerators and stoves. PHAs have had to rely on modernization funds which have been inadequate to cover these ongoing basic cost items.

Rising costs also reflect large increases in insurance premiums, ranging from 100 percent to 800 percent. And, while there have been excess PFS subsidy funds each year, HUD did not (except in FY 1982) utilize the provisions of the PFS to provide payments for these costs beyond control.

In addition, changes in state and local mandates are not accounted for as increased expense items under PFS. Requirements of workmen's compensation laws, for example, can exceed the annual adjustment factors allowed in the original base year calculation. HUD identifies additional costs in these areas as "add on" costs. HUD only provides "add on" monies for changes in federal legislation or regulations, not state or local adjustments.

HUD has recognized that there are inequities in the system and proposed in 1982 to revise the equation to update the PFS variables. These changes were never implemented. A final rule was issued in November 1985, modifying the PFS, but the changes were not sufficient to correct the current problems. Program changes are needed now to enable PHAs to adequately maintain public housing and to meet the social service needs of the low income families in that housing. In 1986, Congress supported the industry with several actions to address the problems associated with funding operations. The House of Representatives included provisions in H.R. 1 that would comprehensively modify the PFS; no final congressional action was taken on the legislation. Congress also responded to the effects of the insurance crisis by authorizing the use of excess operating subsidy funds to cover these uncontrolled expenditures.

These efforts are applauded, but more must be done in order to support the efficient management of the more than 1.3 million units of public housing.

NAHRO

# Public Housing Rental Income Policies

## The Issue

Current rental income policies prevent a Public Housing Authority (PHA) from establishing a reasonable balance between rental income and federal subsidy. These policies also frustrate efforts to maintain financially and socially stable projects while serving low income housing needs. Current requirements limit residency in many projects only to very low income families. Policies that limit deductions from income when determining eligibility produce inequities in serving families with equally critical housing needs. Abolition of ceiling rents negatively affects sound operations and the goal of maintaining social and economic integration in public housing. At a time when federal assistance to housing is being reduced, such policies also have forced PHAs into greater dependence on the federal dollar and have fostered an increased need for federal operating funds. PHAs need the opportunity to make optimum use of rental income as one resource to assist in efficiently and effectively meeting the housing and service needs of more than four million public housing residents.

## The NAHRO Position

- NAHRO advocates the following legislative actions to allow greater flexibility in increasing rental income and in serving the needs of all low income households.
    1. Reestablish income admission limits at 80 percent of area-wide median income for at least 25 percent of the PHA population.
    2. Authorize a ceiling rent for households with incomes up to 80 percent of the median, not to exceed the Fair Market Rent (FMR) in the area except with HUD approval. The ceiling rent for a household should be subject to a three-year limitation after which time the family's rent would be based on 30 percent of adjusted income. A PHA's total rental income should be at least 25 percent of the aggregate adjusted income for all residents of the authority.
    3. Authorize a minimum rent for families whose sole source of income is Aid for Dependent Children (AFDC). Rent should be equal to the portion designated for housing by "flat grant" states and the shelter allowance in "as paid" states.
    4. Reinstate a deduction for elderly families.
    5. Establish a deduction for working families beyond the present deductions allowed.

- NAHRO advocates legislative authority for demonstration programs to allow PHAs greater flexibility in developing rental income policies. Such legislation would serve as an opportunity to test adjustments in federal policy. The demonstration is not intended to suggest federal withdrawal from its commitment to adequately fund the operation of the total public housing program. Nor does it suggest that PHAs stop serving the full range of persons eligible for public housing at affordable rents.

## The Facts

Current law restricts a PHA's ability to maximize income within overall program policy objectives. Legislative restrictions limit rents as a greater source of program funding and negatively affect sound program management.

Current law restricts admission to public housing to very low income residents (below 50 percent of area-wide median) except in projects built before 1981. Even before this policy was enacted, 95 percent of those in public housing were very low income families. Further targeting to the very low income population reduces a PHA's rental income base, thereby increasing the need for federal subsidy. It also threatens the social stability of the projects by eliminating opportunities for some social and economic integration.

Legislative restrictions also have removed income deductions for some households, penalizing low income working families and the elderly, and creating inequities in program policy. Rents for the very low income AFDC support families were reduced significantly, while rents for the working poor and elderly families were increased. In many cases, permissable rents charged to the AFDC family are lower than the actual housing allotment calculated by the state agency administering the AFDC program, while working families can pay in excess of 30 percent of take home pay for rent.

Prohibiting ceiling rents reduces housing opportunities for lower income families—those with incomes between 50 percent and 80 percent of area-wide median. Many of these families are being forced from the program because of the high rents associated with a 30 percent rent-to-income ratio and the change in the deduction policy.

These standardized requirements for both income limits and rent determinations affect the PHA's financial operation as well as the overall management and social stability of the program. This combination of current policies works to force out lower income working families in need of housing. These families can help to stabilize the public housing program both financially and socially. Losing these families as tenants negates the intent of the 1974 Housing Act, which mandated housing families with a cross section of income, not just the very poor.

In 1986, the House of Representatives incorporated some of these recommendations in H.R. 1. NAHRO advocates similar legislation in 1987 incorporating the positions outlined above. Additionally, HUD is now developing proposals to promote program deregulation and establish demonstrations that would allow PHAs to operate under less restrictive policies. NAHRO supports these actions to provide greater administrative flexibility to PHAs. The social and economic mix resulting from modified income policies will serve as an important stabilizing factor in public housing projects.

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Senator CRANSTON. Thank you very much.

Senator D'Amato has expressed his desire that his statement be admitted for the record.

[The complete statement of Senator D'Amato follows:]

Alfonse D'Amato

STATEMENT OF SENATOR D'AMATO

### BANKING, HOUSING AND URBAN AFFAIRS SUBCOMMITTEE ON HOUSING

February 17, 1987

### AUTHORIZATION OF HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS ADMINISTERED BY THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND THE U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, thank you for this opportunity to submit my statement concerning the reauthorization, expansion and improvement of the housing and community development programs under the administration of the U.S. Departments of Housing and Urban Development, and Agriculture. I look forward to reviewing the testimony of today's witnesses. I command them for taking the time to assist us in formulating legislation that will address the housing and development needs of our Nation's cities and rural areas.

I also would like to congratulate you on your new role as Chairman of the Housing Subcommittee. The subcommittee is beginning the process that will, to a large extent, decide the role of the Federal government in housing, and urban and rural development for fiscal year 1988. We will certainly benefit from your able leadership and strong support of these vital programs.

For almost fifty years, the Federal government has played a major role in advancing national housing and economic development policies in its partnership with the housing industry and with state and local governments. We have provided federal tax incentives to promote homeownership and affordable rental housing. Direct federal assistance has been provided to low and moderate income individuals and families so that they may be sheltered in safe and sanitary housing. Government assistance also has been provided through the establishment of specialized financial institutions. These federally-chartered institutions have channeled funds into the housing market and have given prospective home buyers access to affordable mortgage credit. Other federal programs have been developed to revitalize our commercial and industrial areas and to rebuild our neighborhoods.

It is unrealistic to assume that our cities, towns, counties and other localities are no longer in need of programs under the jurisdiction of HUD and the Farmers Home Administration. If our communities are to continue to grow and their residents are to continue to prosper, the Federal government must maintain housing, and urban and rural revitalization as one of its highest priorities.

The Urban Development Action Grant (UDAG), Community Development Block Grant (CDBG) and Housing Development Grant (HoDAG) programs are perfect examples of federal programs that assist our communities and their citizenry. They should be continued. The UDAG program assists cities and urban counties that are experiencing severe economic distress. UDAGs help stimulate economic development activity and provide needed aid to local economic recovery. Similarly, the CDBG program assists localities and states to fund local community development programs. These activities are directed toward neighborhood revitalization, improved public facilities, and the provision of vital public services. The HoDAG program provides localities with newly constructed or substantially rehabilitated rental housing in areas experiencing severe shortages of rental housing. These programs develop communities and create jobs.

As we are all aware, the fiscal year 1988 budget proposes to rescind $205.4 million in UDAG funding, $375.2 million in CDBG assistance, and $99.5 million in HoDAGs for the current fiscal year. This would reduce CDBG funding for fiscal year 1987 to $2.6 billion, considerably less than the original $3.0 billion appropriated by Congress. The same reduced level of $2.6 billion is proposed for FY 1988. With respect to the UDAG and HoDAG programs, the rescissions effectively will terminate these programs for the current fiscal year. For fiscal year 1988, these programs are slated for elimination.

Mr. Chairman, I oppose these wrong-minded proposals. Many communities across our country have spent months planning for this year's CDBG, UDAG and HoDAG funding rounds. Our cities are anticipating these funds as part of their local municipal budgets. Local officiels have obtained commitments and approvals from local boards and councils. They have provided hope in their communities that jobs will be created and that services will be maintained. Many anticipate the expansion of their local tax base if they are awarded federal assistance. These reductions and eliminations would pose an undue hardship on our states, cities and smaller

NAHRO

# Public Housing Modernization

## The Issue

Continuing, adequate funding is needed to support the job of modernizing and improving public housing projects. Public housing in America currently provides affordable shelter for more than four million residents and represents an investment of $75 billion. To continue this service, public housing requires periodic physical improvement and the replacement of aging building systems. Since 1978, the Comprehensive Improvement Assistance Program (CIAP) has provided only part of the funds needed for public housing modernization.

## The NAHRO Position

- NAHRO advocates a funding level of $1.437 billion for FY 1988, based on the direct grant approach.
- NAHRO advocates comprehensive grant legislation which promotes local flexibility and includes the following provisions.
  1. Multiple-year authorization to provide a predictable level of funding.
  2. Funding levels that provide adequate resources for current and future modernization needs.
  3. An equitable allocation system designed by HUD and approved by Congress to address actual funding needs.

## The Facts

The federal government has a responsibility to help ensure the maintenance of public housing units in decent, safe, and sanitary condition, and to help provide public housing agencies with sufficient funds to carry out such maintenance. Modernization includes both the physical improvement of the current stock and replacement of building systems (such as heating and electrical).

Annual funding levels for public housing modernization have remained relatively constant for the last few years, at $1.5 billion to $1.7 billion annually. The $1.437 billion appropriation in FY 1987, coupled with the change from long-term financing to direct grants, doubled the amount of actual capital costs that could be financed.

Modernization is an effort to improve the quality of life for low income families in public housing, to reduce the reliance on obsolete building systems, and to encourage efficient operations. Modernization is not a substitute for new development, however. In 1985, public housing vacancies were estimated at 70,000 units (5 percent of total units)—and one-third of that is due to preparation for normal turnover. More than 400,000 households are on current public housing waiting lists. Adequate levels of both modernization funds and new production are necessary for public housing to carry out its mission.

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Despite a continuing commitment to improvement of the existing stock, the demand for funds has historically outstripped available resources. PHAs have been unable to obtain sufficient funding for comprehensive modernization. Projects not funded face continued decline in the number of habitable units and in living conditions for residents. A sound comprehensive grant system would allow PHAs to develop a rational plan for maintenance and improvement based on predictable funding levels.

The lack of a replacement reserve, coupled with less than adequate modernization funds, has led to a growing backlog of deferred maintenance even in sound projects.

NAHRO

# The Sale of Public Housing

## The Issue

Actions in the 99th Congress indicated support for legislation establishing a "right to buy" which could lead to the large-scale sale of public housing units to residents and/or resident management corporations. Selling off public housing would eliminate a permanent source of housing for low income families in this country at a time when low income Americans face the worst housing crisis in decades. NAHRO is concerned that the sale of public housing may lead to the federal government abandoning its commitment to maintain the public housing stock for low income people.

## The NAHRO Position

- NAHRO supports homeownership opportunities for low income families.
- NAHRO opposes any homeownership program that requires the sale of public housing unless the following provisions are included to preserve the low income housing stock.
    1. No existing units of public housing can be removed from the rental housing stock without one-for-one replacement of units (unless the PHA determines there is no need for replacement) and without PHA approval of the sale of its units.
    2. A reserve fund or other mechanism for maintenance expenses ensures the program is workable for low income families over time.
    3. Counseling assistance and expanded employment opportunities are provided for participating low income families to further the opportunity to earn an income adequate to support homeownership.
    4. Restrictions on resales prohibit owners from reaping excessive profits over a short period of time, and prohibit the use of properties as an investment for speculators.
    5. The PHA is adequately funded to provide technical assistance and other services needed for low income homebuyers.
- NAHRO supports, as an alternative to the sale of much-needed public rental housing, a homeownership program which results in net additions to the low income housing stock. Such a program would promote homeownership for low income families while maintaining public housing as a rental housing base for the poor.

## The Facts

The Department of Housing and Urban Development (HUD) has implemented several homeownership opportunities for low income families, including public housing residents. Section 5(h) of the 1937 Housing Act authorizes the sale of public housing to residents while the federal government continues to pay for debt service and the cost of rehabilitating the units. The Turnkey III program also promoted low income homeownership. Both the Section 5(h) and Turnkey programs have met with marginal success. Under Section 5(h), out of a total of 2,951 units authorized for sale, only 547 units have been sold to date. Similarly, in the Turnkey III program, only 2,932 have been sold since 1972 out of 16,010 units available. Reports point out several major problems with implementing homeownership opportunities for the very low income public housing resident. There are few tenants with incomes sufficient to meet and maintain homeownership demands, particularly large-scale repairs that might be needed a few years after sale. There is generally limited homeownership potential. Poor follow-up assistance typically fails to provide needed orientation and ongoing counseling to homebuyers.

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In 1984, in an effort to establish a workable program, HUD intiated a Public Housing Homeownership Demonstration to study the concept of selling public housing to residents, and to identify potential problems and solutions. The demonstration has not yet yielded data on the feasibility of such sales, the accompanying problems, nor the best methods to address those problems.

In 1986, however, a homeownership proposal was introduced unexpectedly in the House of Representatives that would: 1) allow the sale of up to one-fourth of the public housing stock without replacement of lost units; 2) place no restrictions on resale of units or private market speculation; and 3) allow no oversight or participation in the program by the PHA. This "right to buy" would permit sale of units without agreement by the PHA. Nor would the "right to buy" proposal consider the future viability of the public housing project with the remaining units. This proposal was included in H.R. 1 but died when Congress failed to enact the housing bill.

Such a program would have a negative effect on maintaining public housing as a viable rental housing resource available to meet the growing housing needs of this nation's poor. NAHRO supports homeownership for the poor but not at the expense of the desperately needed public housing stock. Public housing has continued to provide low cost housing for poor families for decades. With proper care it can continue to do so for decades longer.

**NAHRO**

# Tenant Management of Public Housing

## The Issue

Legislation introduced in 1986 proposed to establish a national preference for tenant management of housing projects, without regard to local preference or management performance. Similar legislation to further tenant management is expected to be introduced in 1987.

NAHRO is committed to promoting the sound management of public housing in order to conserve the housing stock and improve the quality of life for public housing residents. The organization of management to achieve this goal can take different forms, depending upon local circumstances and local choices. No one form of management is inherently better.

## The NAHRO Position

- NAHRO supports legislative initiatives to promote and reward good management practices, regardless of organizational form.

- NAHRO opposes legislative initiatives that assume any one form of management is universally superior, regardless of local experience, local preference, or the local situation. Specifically, NAHRO opposes legislation regarding tenant management that includes any of the following provisions.
    1. Awards Comprehensive Improvement Assistance Program (CIAP) funds on a basis other than need or project-related factors.
    2. Waives regulatory requirements for tenant-managed projects but not PHA-managed projects.
    3. Provides other incentives or establishes priorities in funding on the basis of the type of management rather than the need or the performance of the public housing authority.

## The Facts

Public housing authorities today are faced with a wide array of pressures. Rising needs, combined with limited production, have created long waiting lists in many cities. Limited modernization funds and an inadequate Performance Funding System frustrate efforts to maintain and conserve the stock. In a highly regulated industry, local agencies must contend with complex requirements that can frustrate sound management. Additionally, public housing authorities are increasingly forced to act as social service agencies to address the economic and social problems of some residents—poverty, lack of education, lack of job skills, drug abuse, and teenage pregnancy. In this environment, solid management is a critical resource that must be developed and fostered.

NAHRO has historically supported tenant involvement in public housing management. Tenant participation can help link operations and services to the needs of families who live in public housing. Tenant involvement can provide individuals with opportunities for work, job training, and participating in community decision making. In 1978, the federal government established the National Tenant Demonstration Program, providing financial and technical assistance for six PHAs to establish demonstration projects in tenant management. Studies concluded that tenant management can provide opportunities for resident employment, improve the quality of life, and increase access to social services.

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The studies also revealed some potential problems. There may be significant resident resistance to implementing tenant management. Considerable time, patience, technical assistance, resident training, and PHA involvement are needed to make tenant management work. Tenant management is not readily adaptable in the same format in all situations; its success depends upon specific local circumstances. While in some cases tenant management of a project is a sound choice, in other cases traditional PHA management is preferable.

Legislation introduced in 1986 would have encouraged tenant management in all public housing projects. Resident-managed projects would have received priority for CIAP funds. The legislation also would have waived certain regulatory requirements solely for tenant-managed projects. Such initiatives ignore the need to address root causes of problems in public housing. They also fail to provide all PHAs with adequate tools to confront those problems.

Tenant participation in management can be a valuable resource to promote quality and efficiency in public housing. Tenant management can be a valid choice for sound management in a given project. However, tenant management is not inherently preferable to other forms of management, nor is it a solution to all problems facing managers of public housing. It is one more tool that can be used depending upon local circumstances and needs. Initiatives to improve public housing must promote good performance by all PHAs, not just those under a particular form of management. Good management practices should be uniformly supported and rewarded, not the *form* of management.

NAHRO

# Residential Rehabilitation Programs

## The Issue

This year, the Reagan Administration again propose to terminate or drastically cut most federal assistance for housing rehabilitation.

## The NAHRO Position

- NAHRO advocates funding rehabilitation programs at the following levels in FY 1988:

| | |
|---|---|
| Section 312 Rehabilitation Loans | Repayment level plus carryover ($96 million estimated) |
| Rental Rehabilitation Program | $150 million |
| Section 8 Moderate Rehabilitation | 20,000 units |
| Urban Homesteading | $15 million |
| FmHA Section 504 Repair Program | $22 million |
| FmHA Rural Preservation Grants | $19.14 million |

- NAHRO supports expanding eligibility for Rental Rehabilitation Program funds to communities located in FmHA-eligible areas.
- NAHRO advocates continued coupling of the Rental Rehabilitation Program with Section 8 certificates and vouchers.

## The Facts

Physically inadequate or crowded housing comprises 12 percent of all housing units; lower income households are the primary occupants. Eighteen percent of rental housing is deficient. The incidence of deficient housing is also disproportionately higher among minorities, elderly, female-headed households, and handicapped persons.

Continuation of federally funded rehabilitation programs is essential to address this widespread need for decent, affordable housing for low income households. Preserving the existing stock also stabilizes neighborhoods, encourages private investment, and prolongs availability of affordable housing for future generations.

The *Section 312 Rehabilitation Program* provides low interest loans principally to homeowners, with 93 percent of loans going to those with incomes below $30,000 per year; 77 percent below $20,000; and 22 percent below $10,000. The 312 program is totally self-supporting from loan repayments since there has not been a direct appropriation since 1980.

The *Rental Rehabilitation Program* has committed funding to 65,000 units since start-up three years ago, with 15,000 already completed. Grants are distributed on a formula basis to entitlement communities and to states which distribute funds to small cities. The maximum grant is $5,000 per unit and an equal owner match is required. The average grant to date has been $3,000 and average rehab cost is $9,200. For each $5,000 in Rental Rehabilitation funds, one Section 8 certificate or voucher for rental assistance is allotted to the local housing authority. HUD is taking action to terminate the linkage (decouple) between certificates and vouchers and the program. NAHRO believes continued coupling is needed to ensure affordability of the rehabbed unit and to avoid resident displacement. The coupling mechanism ensures availability of rental assistance to coincide with rehab completion.

*Section 8 Moderate Rehabilitation* provides a rent guarantee to landlords who upgrade and maintain their properties in safe and sanitary conditions. These landlords agree to rent to low/moderate income persons for 15 years. Special Fair Market Rents (FMRs) are set for each community. Tenants pay 30 percent of their income for rent. The local housing authority, which manages the program by contract with HUD, pays the difference between the tenant's contribution and the FMR. Owners must obtain rehab financing from private and other public sources. The incentive provided by this program has resulted in the rehabilitation of 74,000 units since 1978.

The *Urban Homesteading Program* provides affordable homeownership by transferring federally owned foreclosed properties to homesteaders. The homesteader agrees to make repairs within three years and live in the unit at least five years. Prospective homesteaders must currently reside in substandard housing, pay in excess of 30 percent of income for housing, and have little prospect of otherwise obtaining improved housing. Homesteading programs must be carried out in designated neighborhoods and be part of a coordinated approach to neighborhood improvement. About 120 communities now operate homesteading programs. A $12 million appropriation provides reimbursement for about 600 units annually and stimulates transfer of another 400 properties acquired by local governments. The homesteader obtains financing for the average rehab cost of $20,771 from other sources, with 312 Rehab Loans providing 75 percent of all rehab financing and CDBG providing 12 percent.

The *FmHA Section 504 Program* serves non-metropolitan communities under 10,000 population. The program provides loans and grants to very low income homeowners to remove health and safety hazards.

*Rural Housing Preservation Grants* are distributed to non profit and public entities to provide rehabilitation financing to low income homeowners. To compete successfully for the funds, these entities must leverage significant amounts of private financing. In its first year of operation, the program is projected to serve 4,100 persons. Regulations are pending that would expand eligibility to multi-family property rehabilitation.

NAHRO

# Urban Development Action Grant Program

## The Issue

Survival of the Urban Development Action Grant (UDAG) program is again at stake. While Congress continued to fund UDAG in FY 1987, support is waning due to failure to enact selection criteria changes. Proposals to terminate UDAG will again emerge this year. Proposals to set caps on UDAG awards are also expected.

## The NAHRO Position

- NAHRO advocates legislation to establish:
  1. A three-year program reauthorization at a funding level of at least $330 million annually.
  2. A dual selection system with two-thirds of available funds awarded first based on a combination of distress and merit criteria and the remaining one-third awarded solely on the basis of project merit.
- NAHRO opposes any arbitrary dollar cap on UDAG awards.

## The Facts

UDAG is a model public/private partnership with a solid performance record. In eight years, the program has:

- Exceeded $32.7 billion in total investment with 80 percent coming from non-UDAG sources;
- Assisted 2,764 projects in more than 1,100 cities;
- Generated $600 million annually in added local taxes; and
- Leveraged $5 in private investments for each $1 of UDAG funds.

Of the more than 550,000 new permanent jobs created by UDAG, more than half provide badly needed employment for lower income persons. More than a third of all UDAG projects involve manufacturing. About half of the companies are new to the community, helping to expand the local economic base and soften the impact of plant closings and layoffs. About 40 percent of UDAG projects involve commercial businesses which are important sources of service sector and entry level jobs. About 30 percent of UDAG projects fund housing and neighborhood projects. Nearly 107,000 new and rehabbed units have been created by UDAG, and many are reserved for lower income families.

In FY 1987, UDAG funding was reduced to $225 million, a 67 percent decrease from its FY 1981 level of $675 million. Based on UDAG's track record, the recommended $330 million funding level for FY 1988 would translate into 37,500 new permanent jobs, 75,000 construction jobs, and $2 billion in private investments.

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Selection criteria changes are needed to distribute awards geographically and to fund highly beneficial new projects. Because of the emphasis on distress criteria, the present selection system is heavily biased toward cities east of the Mississippi River. In 1986, a bipartisan compromise was folded into proposed legislation. The proposal would have created two separate competitions. Two-thirds of the funds would have been for projects evaluated on distress and quality factors; one-third would have been for projects evaluated on quality factors only. All applications would have to meet certain threshold factors for distress, including high poverty, chronic unemployment, and physical deterioration. The proposal was included in H.R. 1 which was not enacted by Congress.

NAHRO opposes an arbitrary dollar cap on UDAG awards. Some projects are of such a magnitude that they are not feasible without large grants. Thirteen projects funded during FY 1985 would have lost 30 percent of their $111 million in UDAG funding if, for example, a $5 million cap were in place. Efforts should be made to keep the size of UDAG awards down in order to fund as many projects as possible, but there should not be a blanket prohibition against large awards. One approach would be to modify the selection criteria to provide an incentive for keeping project costs under a specified dollar amount. Alternatively, the Secretary could be provided discretionary authority to make awards exceeding a cap when justified.

localities. Only confusion and frustration will develop in our communities if we allow these programs to be reduced further or terminated indefinitely.

Another aspect of the 1988 HUD budget, which concerns me, is the so-called "shift of fund availability" proposal for the Section 8/202 Elderly and Handicapped Housing program. This program provides long-term direct loans at low interest rates for the construction, rehabilitation and alteration of rental housing for the elderly and handicapped. Private nonprofit sponsors may qualify for these loans. Households of one or more persons, the head of which is at least 62 years old, and qualified nonelderly handicapped individuals between the ages of 16 and 62 are eligible for housing under this program. In addition, to enable senior citizens and handicapped tenants afford these units, Section 8 assisted housing certificates are made available to Section 202 projects. These certificates directly subsidize the tenants' rents.

The 1988 budget proposal would "shift" approximately $267 million in Section 8 assisted housing authority and $90.7 million in Section 202 direct loan authority from 1987 funding to fiscal year 1988. In the out years, the Section 8/202 program would be terminated.

Congress appropriated $592.7 million in direct loans and rental subsidy funds for this program in FY 1987. This represents 12,000 new units of elderly and handicapped housing for the current fiscal year. What the 1988 budget proposal essentially does is provide enough authority to fund 2,000 Section 8/202 units in fiscal year 1988 and reduce by that amount, to 10,000 units, the level of funding for 1987. No additional funding of Section 202 projects and Section 8 rental assistance is proposed for 1989 and beyond.

Mr. Chairman, the Congress originally mandated a 12,000-unit program for fiscal year 1987. I believe that it is incumbent upon us to see to it that this program receives the amount of funding authorized by Congress. Furthermore, it is the responsibility of this subcommittee, and the full Congress, to decide the fate of this program. Personally, I believe this program should be reauthorized. Between 1981 and 1986, New York State received 7,565 housing units for the elderly and handicapped. This represents more than $390 million in housing assistance. An estimated 1,140 units would be made available statewide under the 12,000-unit program of FY 1987. The Federal government must continue its commitment to house our Nation's elderly and handicapped.

Finally, with respect to the housing and development programs administered by the Farmers Home Administration, this subcommittee should review closely the 1988 budget proposals that would eliminate FmHA's current array of housing programs and replace them with a 20,000-unit assisted housing voucher program, that would eliminate all of FmHA's rural development programs, and that would rescind $1.525 billion in FmHA low interest rural housing loans during the current fiscal year. For fiscal year 1987, Congress appropriated approximately $2.2 billion for FmHA housing programs. This figure will provide housing assistance for an estimated 60,500 rural families nationwide. The rescission represents a 75 percent reduction.

The conditions that gave rise to the need for the Farmers Home Administration in 1949 still exist today. We need the continuation of rural housing and development loan and grant programs that serve families, including the elderly and handicapped, who are unable to obtain funding from private sources. These programs provide growth, development and jobs to the local rural economy. For every FmHA housing unit constructed, 1.4 years of employment are provided. In 1985, 69,469 units of housing added over one billion dollars in taxes and wages to the economy. FmHA programs provide many benefits to our rural communities and citizenry.

Mr. Chairman, I would now like to discuss briefly a piece of legislation that I introduced on January 6, 1987, S. 258, the Housing and Community Development Act of 1987, which I recommend to this subcommittee as a catalyst for addressing the housing and community development concerns of the 100th Congress. This bill includes some items that were contained in the various housing bills of the 99th Congress, such as H.R. 1, H.R. 3500, S. 1730, S. 1913, which I introduced, and S. 2507, which was reported out of the full Banking Committee last May.

S. 258 in no way encompasses all current housing and community development program needs. Rather, it is my hope that this bill will serve as a starting point for housing and community development legislation during this session of Congress. My bill contains a limited number of timely program amendments and new initiatives that should be enacted this year, including the National Nehemiah Housing Opportunity program and two programs for the homeless: an emergency food and shelter grant program and a transitional housing program. I first introduced these programs late in 1985 after working with many of my committee colleagues in developing them.

The Housing and Community Development Act of 1987 contains three titles: Title I - Community Development, Title II - Mortgage Credit and Miscellaneous Provisions, and Title III - Homeless Assistance. Section 101 of Title I provides for the authorization of the Nehemiah Housing Opportunity program. This program would permit families that otherwise would not be able to purchase a home to achieve homeownership. It provides a grant of up to $15,000 to families in distressed neighborhoods. The Nehemiah program was incorporated into S. 2507 last year.

Other provisions under this title include a Community Development Block Grant entitlement transition provision for small cities and the reauthorization of, and amendments to, the Urban Development Action Grant (UDAG) program. The CDBG entitlement transition provision under Section 102 would allow entitlement cities that no longer meet population threshold requirements to continue to receive entitlement allocations for the year in which they no longer qualify plus three additional years. S. 258

provides for the reauthorization of the UDAG program and for a change in the selection system and allocation formula of UDAG funding that would give all eligible cities a chance to compete for UDAGs. These UDAG provisions under Section 103 of my bill were included in S. 2507 and have the broad-based support of all major urban, housing and redevelopment associations.

Under Title II of S. 258, mortgage limits for multifamily housing projects in high cost areas would be raised under Section 201 from the current 75 percent greater than the base to 110 percent greater than the base. The affected programs would be those multifamily programs currently administered by the Federal Housing Administration (FHA). Section 202 extends the authority for the secondary mortgage-backed securities program of the Government National Mortgage Association (GNMA). Section 203 prohibits the Federal government from charging or collecting fees or other premiums for loans, loan guarantees, or insurance under existing programs beyond those already in effect. Section 204 extends the Home Mortgage Disclosure Act of 1975 to October 1, 1989 and Section 205 makes permanent the authority of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) to purchase second mortgages. Many of these Title II provisions have broad support from members of this subcommittee, and from Congress.

Title III would create a long-term federal program for homeless assistance. Part 1, the Emergency Food and Shelter program, would provide similar homeless services that are currently being provided by the Federal Emergency Management Agency (FEMA). The national board for the homeless would continue to make grants to non-profit, charitable organizations to provide meals and sleeping quarters to those in need. S. 258 would authorize appropriations for this program through fiscal year 1989.

Part 2 of Title III, Transition to Independence Demonstration Project, would allow the Secretary of HUD to make grants to states, local governments and private non-profit organizations to provide housing and supportive services, such as counseling, physical and mental health care and employment training, to the homeless so that they may make the transition to independent living.

Overall, Title III would provide a comprehensive program for the homeless through the coordinated efforts of the U.S. Departments of Housing and Urban Development, Agriculture and Health and Human Services, as well as through FEMA.

Mr. Chairman, during the 99th Congress, I worked with many of my colleagues on the Housing Subcommittee to develop this program so that local providers would not have to wonder whether there was going to be assistance each year, as is now the case through the yearly appropriations process. An authorized formal program would provide stability and certainty to the cities, towns and charitable organizations that provide services to the homeless. As you know, major provisions of this program were incorporated in S. 2507.

I firmly believe that our Nation will benefit from the housing and community development provisions embodied in S. 258. However, as I stated earlier, this should be just the starting point for housing legislation during this session. We must work together to formulate a reauthorization bill that provides the cities and rural areas of our country with the necessary tools to continue their revitalization. We must not destroy the economic development that has been initiated in our communities. Instead, we must give each community the assistance to provide decent and affordable housing for its residents and an opportunity to continue to develop its surroundings. The efforts made by our localities are worthy of the assistance provided under the programs administered by HUD and Farmers Home.

Thank you, Mr. Chairman.

Senator **Cranston**. Our next witness is Terrence Duvernay, Executive Director, Michigan State Housing Development Authority, Treasurer, Council of State Housing Agencies.

## STATEMENT OF TERRENCE DUVERNAY, EXECUTIVE DIRECTOR, MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY, TREASURER, COUNCIL OF STATE HOUSING AGENCIES

Mr. **Duvernay**. Mr. Chairman, thank you very much.

I want to take this opportunity to thank you and the committee for allowing me, on behalf of the 57 State-chartered housing finance agencies to testify today on the need for a comprehensive Federal housing policy for low- and moderate-income people.

These agencies over the past 19 years have provided the financing for over 600,000 single family home purchases and the private sector construction or rehabilitation of over 632,000 rental units, 388,188 of those which were built with direct Federal subsidies.

The recipients of this housing are substantially low- and moderate-income first-time home buyers or renters. CSHA is pleased that this committee is beginning to plan for a national housing policy. There is a clear need for Federal, State, and local governments to work together with the private sector to ensure an adequate stock of decent affordable housing. It is most unwise to continue the piecemeal policy through a series of unrelated programs with new programs never coming that are absolutely necessary.

Federal housing policy should combine adjusting successful programs with new programs to meet the emerging needs. As you are aware, the Housing Act of 1949 which committed this Nation to decent, safe and sanitary housing has gone a long way to make America the best-housed Nation in history.

### ABROGATION OF RESPONSIBILITY

However, in recent years, the Federal Government has abrogated its responsibility in this area. The failure of Congress, coupled with administration attempts over the years, including the proposals of the fiscal year 1988 budget is evidence of this failure.

In addition to this, the housing-related provisions of the Tax Reform Act and the Government's efforts to reduce the Federal mortgage and guarantee programs make matters worse.

As these changes in Federal support have occurred, housing our Nation's poor has more and more become the purview of States, with member agencies of CSHA in the forefront. Programs such as HODAG, CDBG and UDAG have been an integral part of the housing production process which CSHA members provided the impetus to build or rehabilitate hundreds of thousands of units of multifamily and single family units throughout the United States.

The Michigan State Housing Authority, my agency, for instance, administers, among other programs, the Federal Small Cities CDBG Program for housing, awarding nearly $19.5 million in grant funds to smaller cities, townships, and rural communities of our State since 1982. Over 4,700 units of housing have been renovated or repaired, most of them for very low income, female-headed, elderly, handicapped, or minority households.

The authority has also worked with entitlement communities. Many use their CDBG funds as construction costs writedowns to acquire land for housing, to provide low-income home repair loans for low-income housing by leveraging the grants with authority funds. This year we have either financed or will be providing financing for 10 HODAG projects encompassing nearly 1,300 units. Approximately 400 of those units will have rents affordable to low- and very low-income families exceeding the 20-percent statutory program requirement by a significant amount.

We estimate that the development cost per unit of this housing will be $45 million and investment in some of our State's most distressed areas.

We think that HODAG funds translate not only into housing units but into jobs, economic development, and tax stability. We think that it is essential to our efforts to provide affordable, safe, sanitary, and decent housing in Michigan and the Nation that the housing bill be reauthorized and that these vital programs be continued at either current authorization levels or above that.

The Federal housing policy must also ensure that the existing housing stock of low-income housing units continues to serve low- and moderate-income people. There are about 154,000 units of section 236 insured and assisted housing that could repay their mortgages and be lost from the subsidized housing inventory by fiscal year 1995.

Furthermore, some States are already facing repayment of mortgage loans for section 8 developments.

To stem the potential erosion of low-income inventory, the housing reauthorization bill should include an incentive for owners of HUD rental projects, both insured and uninsured—I see the red light, Senator, so I will try and wrap up by saying we need new incentives to keep that stock in place and we also need to look at new programs like the Nehemiah plan, the home equity sharing plan, continued use of other efforts at housing the elderly.

We at the CSHA stand ready to work with you and your committee as you deliberate and as you implement whatever bill might be authorized and I thank you for the opportunity to speak before you.

[The complete prepared statement of Terrence R. Duvernay follows:]

# TESTIMONY OF
# THE COUNCIL OF STATE HOUSING AGENCIES
# BEFORE
# HOUSING SUBCOMMITTEE OF THE
# SENATE BANKING COMMITTEE

**Delivered By Terrence R. Duvernay**
**Executive Director**
**Michigan State Housing Development Authority**
**Treasurer of**
**The Council of State Housing Agencies**

THE COUNCIL OF STATE HOUSING AGENCIES (CSHA) REPRESENTS THE 57 STATE CHARTERED HOUSING FINANCE AGENCIES NATIONWIDE. COLLECTIVELY OVER THE PAST 19 YEARS, THESE AGENCIES HAVE PROVIDED THE FINANCING FOR OVER 600,000 SINGLE FAMILY HOME PURCHASES AND THE PRIVATE SECTOR CONSTRUCTION OR REHABILITATION OF OVER 632,000 RENTAL UNITS, 378,188 OF WHICH WERE BUILT WITH OTHER DIRECT FEDERAL SUBSIDIES. THE RECIPIENTS OF THIS HOUSING ARE SUBSTANTIALLY LOW OR MODERATE INCOME FIRST-TIME HOMEBUYERS, OR RENTERS. AS OTHER PRIORITIES HAVE CAPTURED THE ATTENTION OF CONGRESS, AND SUBSEQUENTLY A LARGE PORTION OF AVAILABLE FEDERAL DOLLARS, HOUSING OUR NATION'S POOR HAS MORE AND MORE BECOME THE PURVIEW OF THE STATES. WITH THE MEMBER AGENCIES OF CSHA IN THE FOREFRONT, STATES HAVE DEVELOPED HOUSING PROGRAMS TO REPLACE ELIMINATED OR UNDERFUNDED FEDERAL HOUSING PROGRAMS FOR NOT ONLY LOW INCOME AMERICANS, BUT FOR THE ELDERLY, THE HANDICAPPED AND THE HOMELESS AS WELL. NATIONAL HOUSING POLICY HAS, IN REALITY, BECOME THE AGGREGATE OF STATES' HOUSING POLICIES. IN THE FOLLOWING PAGES WE PROVIDE YOU WITH EXAMPLES OF SUCCESSES AND FAILURES OF STATE USAGE OF FEDERAL HOUSING PROGRAMS AS WELL AS EXAMPLES OF STATES' OWN INITIATIVES.

CSHA IS PLEASED THAT THE 100TH CONGRESS, THIS COMMITTEE IN PARTICULAR, IS BEGINNING TO PLAN FOR A NATIONAL HOUSING POLICY. FOR TOO LONG HOUSING HAS BEEN A BACK BURNER ISSUE. WE SALUTE YOUR FORESIGHT, MR.CHAIRMAN, AND LOOK FORWARD TO WORKING WITH YOU TO PREPARE FOR THE FUTURE.

## HOUSING POLICY, THE ROLES OF THE FEDERAL AND STATE GOVERNMENTS

AS WE ARE ALL AWARE, THE HOUSING ACT OF 1949 ESTABLISHED A NATIONAL GOAL OF A DECENT HOME AND A SUITABLE LIVING ENVIRONMENT FOR ALL AMERICANS. THE FRUITS OF THAT COMMITMENT HAVE BEEN BORN OUT. OVER THE COURSE OF THE PAST 38 YEARS, AMERICA HAS BECOME THE BEST-HOUSED NATION IN HISTORY. YET, THERE IS FAR TO GO. RECENTLY THE PLIGHT OF THE HOMELESS IN AMERICA HAS GAINED NATIONAL ATTENTION. EMERGENCY RELIEF FOR THE HOMELESS HAS ALREADY BEEN PASSED BY CONGRESS. CONCERNED CITIZENS EVERYWHERE SALUTE THESE MEASURES. THEY WILL HELP PROVIDE MUCH NEEDED RELIEF. ON THE OTHER HAND THOUGH THEY ARE NOT ENOUGH. THE PROBLEM OF HOMELESSNESS CAN BE TRACED DIRECTLY TO ONE STRUCTURAL PROBLEM: THERE IS A SEVERE HOUSING AFFORDABILITY CRISIS IN AMERICA. THE HARDCORE POOR, THE UNEMPLOYED, UNSKILLED AMERICAN IS SHELTERLESS BECAUSE IN MANY INSTANCES THE WORKING POOR OCCUPY PLACES IN THE WELFARE HOTELS AND HOMELESS SHELTERS. THE NEED IS FOR GOVERNMENTS -- FEDERAL, STATE, AND LOCAL TO WORK WITH THE PRIVATE SECTOR TO ENSURE AN ADEQUATE STOCK OF DECENT, AFFORDABLE HOUSING.

IN RECENT YEARS, THE FEDERAL GOVERNMENT HAS ABROGATED ITS ROLE IN THIS AREA. THE FAILURE OF CONGRESS TO PASS A HOUSING BILL IS CLEAR EVIDENCE OF THIS, AS ARE THE ADMINISTRATION'S PROPOSED FISCAL YEAR 1988 BUDGET, THE HOUSING RELATED PROVISIONS OF TAX REFORM AND THE GOVERNMENT'S EFFORT TO REDUCE THE FEDERAL MORTGAGE AND GUARANTEE PROGRAMS. IN THE PAST EACH OF THESE LEGISLATIVE CHANNELS HAS PROVIDED US, THE STATE AND LOCAL GOVERNMENTS, WITH MUCH NEEDED TOOLS TO INDUCE PRIVATE SECTOR PARTICIPATION IN THE LOW INCOME HOUSING ARENA.

THIS COMMITTEE MUST DECIDE FIRST WHAT ROLE THE FEDERAL GOVERNMENT WISHES TO PLAY IN HOUSING. IT IS LUDICROUS TO CONTINUE TO PIECEMEAL POLICY THROUGH A SERIES OF UNRELATED LAWS. THE CURRENT ADMINISTRATION HAS CONTINUOUSLY PROPOSED, AND TO A LARGE EXTENT WON, SIGNIFICANT CUTBACKS IN FUNDING FOR HOUSING PROGRAMS. IT HAS ALSO ELIMINATED MOST OF THE TAX CODE INCENTIVES FOR RENTAL HOUSING. DURING THE TAX REFORM DEBATE, THOSE WHO WORKED HARD TO RETAIN SOME INCENTIVES FOR HOUSING FREQUENTLY MET, WHAT BECAME AN ALL TOO FAMILIAR OBJECTION: "TAX CODE SUBSIDIES FOR HOUSING ARE INEFFICIENT. WE BELIEVE HOUSING IS BEST RUN THROUGH HUD."

TRY AS WE DID, WE WERE UNABLE TO MAKE MOST MEMBERS AWARE, OR MAKE THEM CARE, THAT FOR THE MOST PART STATES WERE RELYING ON THE TAX CODE AS THE PRIMARY PRODUCTION INCENTIVE AND ON DIRECT SPENDING AS A BACK-UP. NO LONGER CAN THAT BE THE CASE. ALTHOUGH ONLY EARLY RESULTS ARE IN, IT IS WIDELY BELIEVED THAT THE TAX REFORM ACT OF 1986 WILL HAVE A SIGNIFICANT NEGATIVE IMPACT ON HOUSING PRODUCTION FOR LOW AND MODERATE INCOME RENTERS. TAX REFORM HAS FORCED US AT THE STATE LEVEL TO THE VERY LIMITS OF INNOVATION AND CREATIVITY IN STRUCTURING FINANCING FOR PRIVATE SECTOR PARTICIPATION. AS IMPORTANT AS HOUSING AUTHORIZATION AND APPROPRIATIONS WERE PRIOR TO TAX REFORM, THEY ARE NECESSITIES NOW.

## NECESSARY COMPONENTS OF A HOUSING BILL

S.2507, WHICH WAS PASSED BY YOUR FULL COMMITTEE LAST YEAR, WAS A COMMENDABLE PIECE OF LEGISLATION. AS MIGHT BE EXPECTED, THERE WERE PROVISIONS IN ITS COMPANION H.R. 1, RESURRECTED NOW AS H.R. 4, WHICH WERE PREFERABLE, BUT ON THE WHOLE ANY HOUSING AUTHORIZATION WOULD HAVE BEEN BETTER THAN WHAT WAS (OR WAS NOT) PASSED. EITHER S.2507 OR H.R.1 (H.R.4) ARE INFINITELY PREFERABLE TO THE PROPOSALS CONTAINED IN THE PRESIDENT'S FY '88 BUDGET. WHAT FOLLOWS ARE SUGGESTIONS MADE BY THE STATE HFA'S WHICH, IF ENACTED, WOULD ALLOW US TO ASSUME A LARGER SHARE OF THE BURDEN OF HOUSING AMERICA'S LOW AND MODERATE INCOME CITIZENS.

## HOMEOWNERSHIP

### FHA INSURANCE

AS AGENCIES THAT ACTIVELY ENCOURAGE HOME OWNERSHIP BY FIRST-TIME, LOW AND MODERATE INCOME HOUSEHOLDS, STATE HFA'S ARE VITALLY INTERESTED IN THE PROPOSALS RECENTLY ADVANCED BY THE ADMINISTRATION WITH REGARD TO FEDERAL HOUSING ADMINISTRATION (FHA) SINGLE FAMILY INSURANCE PROGRAMS. FIRST AND FOREMOST LET US STATE OUR

UNEQUIVOCAL OPPOSITION TO THE PRIVATIZATION OF FHA.

ALTHOUGH THERE ARE VARIOUS PROGRAMS UNDER WHICH MORTGAGE LOANS FOR PERSONS AND FAMILIES OF LOW AND MODERATE INCOME MAY BE INSURED, MANY STATES USE FHA/VA SECURED FINANCING, SOME EXCLUSIVELY. A GENERAL SUMMARY OF THE ADVANTAGES OF FHA AND VA INSURANCE IS AS FOLLOWS:

1. QUALIFYING BORROWER FOR LOAN: PERSONS AND FAMILIES AT INCOME LEVELS SERVED BY STATE AGENCY PROGRAMS NORMALLY CANNOT QUALIFY FOR MARKET INTEREST RATE LOANS BUT ARE ABLE TO AFFORD THE MONTHLY PAYMENTS UNDER THE THESE PROGRAMS. IT IS THIS MARKET, WHICH CANNOT BE SERVED BY PRIVATE LENDING INSTITUTIONS ALONE, THAT THE MORTGAGE PURCHASE PROGRAM ADDRESSES. GENERALLY THE PRIMARY MORTGAGE INSURERS' CRITERIA FOR QUALIFICATION PURPOSES ARE TOO RESTRICTIVE. TIGHT UNDERWRITING RATIOS AND STRINGENT CREDIT UNDERWRITING GUIDELINES ACCOMMODATE AND BENEFIT HIGHER INCOME HOUSEHOLDS.

   IN TODAY'S MARKET, FOR A CONVENTIONAL LOAN, A HOME BUYER MUST BE ABLE TO AFFORD A MONTHLY PAYMENT OF APPROXIMATELY 28% OF HIS INCOME FOR HOUSING. IT IS EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE, FOR A MANY FAMILIES TO AFFORD TO PURCHASE A HOME UNDER SUCH CONDITIONS.

2. HOUSING STOCK AVAILABILITY: PRIMARY INSURERS ARE HESITANT TO PROVIDE INSURANCE FOR LOWER PRICE HOMES. MANY OF THE HOMES PURCHASED UNDER STATE AGENCY PROGRAMS ARE LOCATED IN FEDERALLY DESIGNATED TARGETED AREAS. THESE HOMES ARE TYPICALLY MODEST AND VALUED ACCORDINGLY. PRIMARY INSURERS ARE SELDOM COMFORTABLE OR KNOWLEDGEABLE REGARDING THE PARTICULARS OF THESE NEIGHBORHOODS, AND SURROUNDING COMPARABLES, TO MAKE UNBIASED EVALUATIONS REGARDING THE MARKETABILITY OF THESE HOMES.

3. DOWNPAYMENT REQUIREMENTS: IN MOST INSTANCES CONVENTIONAL LOANS REQUIRE AT LEAST A TEN PERCENT (10%) DOWNPAYMENT. TYPICALLY LOWER INCOME HOUSEHOLDS DO NOT HAVE ACCESS TO THAT LARGE SUM OF MONEY. GOVERNMENT INSURED LOAN TO VALUE RATIOS ARE HIGHER, THEREFORE ENABLING OUR BORROWERS THE OPPORTUNITY TO PURCHASE HOMES WITHIN THEIR OWN MEANS.

THE COMPONENTS OF THE ADMINISTRATION'S RECOMMENDATIONS THAT HAVE THE MOST DETRIMENTAL EFFECT ON STATE HFA OPERATIONS ARE:

- INCREASING THE FHA MORTGAGE INSURANCE PREMIUM FROM 3.8 TO 5 PERCENT OF THE LOAN AMOUNT;
- REGULATORY CHANGES DISALLOWING THE FINANCING OF CLOSING COSTS FOR FHA LOANS;

O INCREASING THE VA GUARANTEE FEE FROM 1 PERCENT TO 2.5 PERCENT OF THE LOAN.

WE OPPOSE EACH OF THESE CHANGES BECAUSE THEY WOULD INCREASE THE AMOUNT OF CASH THAT MODERATE AND LOWER INCOME HOME BUYERS WOULD NEED TO HAVE ON HAND AT THE TIME THEY PURCHASE THEIR HOME OR INCREASE THE MONTHLY COSTS OF CARRYING A FHA INSURED MORTGAGE FINANCED THROUGH ONE OF OUR AGENCIES. THEIR EFFECT WOULD BE DISPROPORTIONATELY FELT BY THOSE AT THE LOWEST END OF THE MARKET SERVED SINCE THESE ADDITIONAL COSTS COULD DISQUALIFY THE PROSPECTIVE BUYER RATHER THAN MERELY INCREASE COSTS ASSUMABLE UNDER ACCEPTED UNDERWRITING STANDARDS.

## THE NEHEMIAH PLAN

THE NEHEMIAH PLAN COMBINES SEVERAL SOURCES OF FINANCING AND SUBSIDIES TO PROVIDE AFFORDABLE SINGLE FAMILY HOMES IN LARGE NUMBERS. THE PLAN HAS TRANSFORMED ONE OF THE WORST NEIGHBORHOODS IN NEW YORK CITY INTO A STABLE COMMUNITY WHILE PROVIDING HOMES FOR APPROXIMATELY 1,000 FAMILIES TO DATE.

INTEREST FREE CONSTRUCTION LOANS FOR THE PLAN ARE PROVIDED BY PRIVATE SECTOR LENDERS -- IN THIS CASE A CONSORTIUM OF CHURCHES. THE CITY OF NEW YORK PROVIDES THE LAND AT A COST OF ONE DOLLAR PER LOT ALONG WITH A PROPERTY TAX ABATEMENT. THE CITY ALSO PROVIDES A $10,000, NON-AMORTIZING, INTEREST-FREE SECOND MORTGAGE FROM ITS CAPITAL BUDGET FOR EACH UNIT, WHICH REDUCES THE PURCHASE

PRICE TO THE BORROWER BY $10,000. THE CITY'S SECOND MORTGAGE IS RECAPTURED ONLY UPON RESALE OF THE HOME, AND THE AMOUNT RECAPTURED IS REDUCED TO ZERO GRADUALLY OVER 15 YEARS. IN ADDITION, IF THE HOME IS SOLD AFTER LESS THAN 15 YEARS, THE HOMEOWNER MUST SHARE THE APPRECIATION WITH THE CITY. THE PORTION OF APPRECIATION WHICH GOES TO THE CITY ALSO DECREASES TO ZERO GRADUALLY OVER 15 YEARS. AFTER 15 YEARS, THE SECOND MORTGAGE IS COMPLETELY FORGIVEN, AND THE HOMEOWNER MAY RETAIN ALL THE APPRECIATION IN THE VALUE OF THE HOME. THESE FEATURES OF THE FINANCING CONTRIBUTE TO COMMUNITY STABILITY BY ENCOURAGING RESIDENTS TO REMAIN IN THEIR HOMES.

THE STATE OF NEW YORK PROVIDES BELOW-MARKET RATE PERMANENT MORTGAGE FINANCING THROUGH A CSHA MEMBER, THE STATE OF NEW YORK MORTGAGE AGENCY (SONYMA) TO EVERY NEHEMIAH PLAN HOME. SONYMA HAS SO FAR ALLOCATED OVER $29 MILLION OF MORTGAGE FUNDS TO THE NEHEMIAH PLAN HOMES.

693 NEHEMIAH HOMES HAVE BEEN COMPLETED AND OCCUPIED, 179 ARE UNDER CONSTRUCTION, AND 241 MORE ARE PLANNED FOR 1987, ALL IN THE NEIGHBORHOOD OF BROWNSVILLE IN BROOKLYN. THE WAITING LIST FOR NEW NEHEMIAH HOMES INCLUDES OVER 5,000 FAMILIES. EAST BROOKLYN CHURCHES AND THE CITY OF NEW YORK PLAN TO EXPAND THE NEHEMIAH PROGRAM TO AREAS OF EAST NEW YORK AND OTHER NEIGHBORHOODS.

BEFORE THE NEHEMIAH PLAN HOMES WERE BUILT, THE BROWNSVILLE AREA CONSISTED PRIMARILY OF VACANT LOTS AND DILAPIDATED, ABAN-

DONED BUILDINGS. THE NEHEMIAH PLAN HAS BEGUN TO TRANSFORM THIS DEPRESSED AREA INTO A STABLE, GROWING COMMUNITY OF HOMEOWING FAMILIES.

THE FEDERAL GOVERNMENT COULD REPLICATE THE NEHEMIAH PLAN IN OTHER AREAS OF THE COUNTRY BY PROVIDING FUNDS FOR THE INTEREST-FREE, NON-AMORTIZING SECOND MORTGAGE AND/OR THE INTEREST-FREE REVOLVING CONSTRUCTION LOAN FUND. THESE FUNDS COULD BE GRANTED TO LOCALITIES WITH INCENTIVES FOR STATE AND LOCAL GOVERNMENTS AND PRIVATE NON-PROFIT ORGANIZATIONS TO PROVIDE ADDITIONAL SUBSIDIES. THE COUNCIL OF STATE HOUSING AGENCIES WELCOMES AN OPPORTUNITY TO NATIONALIZE A PROGRAM IN WHICH ONE OF ITS MEMBERS SO SUCCESSFULLY PARTICIPATES. THIS WOULD BE ACHIEVED BY THE INCLUSION OF SENATOR D'AMATO'S PLAN IN S. 258 IN THIS YEAR'S HOUSING BILL.

## FHA DEMONSTRATION PILOT PROGRAM FOR HOME EQUITY CONVERSIONS FOR THE ELDERLY

CSHA WELCOMES AND SUPPORTS THE EFFORTS THAT HAVE BEEN INITIATED IN CONGRESS TO AUTHORIZE A DEMONSTRATION HOME EQUITY CONVERSION PROGRAM FOR ELIGIBLE ELDERLY HOMEOWNERS. WE BELIEVE THAT THIS IS AN APPROPRIATE VEHICLE FOR PROVIDING ASSISTANCE TO SUCH HOMEOWNERS WHO MAY BE "HOUSE-RICH BUT "CASH-POOR", AND WHO, FOR MANY REASONS, MAY NOT BE ABLE OR WILLING TO AVAIL THEMSELVES OF OTHER HOUSING ALTERNATIVES. AS WITH ANY NEW OR EXPERIMENTAL LENDING ACTIVITY, SUCH A PILOT INSURANCE PROGRAM CAN SERVE TO

DEMONSTRATE THE ISSUES THAT WILL NEED TO BE RESOLVED BEFORE BOTH PUBLIC AND PRIVATE LENDERS BECOME INVOLVED IN THIS ACTIVITY IN A SUBSTANTIAL WAY.

A CSHA MEMBER AGENCY, THE CONNECTICUT HOUSING FINANCE AUTHORITY (CHFA) IS THE LARGEST PUBLIC HOME EQUITY CONVERSION LENDER FOR THE ELDERLY; TO DATE HAVING CLOSED 128 LOANS AND COMMITTED OVER $12.5 MILLION FOR BOTH CLOSED LOANS AND LOANS NOW IN PROCESSING. CHFA HAS COMMITTED FUNDS ON AN UNINSURED BASIS TO THIS PROGRAM AND HAS BEEN WILLING, AS A "LENDER" NOT SUBJECT TO THE SAME "BOTTOM LINE" PRESSURES AS A CONVENTIONAL INSTITUTION, TO ASSUME SOME OF THE RISKS THAT AN FHA PILOT PROGRAM WOULD SEEK TO INSURE.

FOR A CONVENTIONAL LENDER THE LARGEST RISK INVOLVED WITH THIS MORTGAGE INSTRUMENT IS THE PROSPECT OF COLLECTING THE OUTSTANDING LOAN BALANCE AT THE END OF THE LOAN TERM. WITH A FIXED RATE LOAN THE RATE EXPOSURE WOULD NOT BE ANY DIFFERENT FROM THAT INVOLVED WITH ANY OTHER FIXED RATE LOAN OVER THE SAME TERM. DEPENDING UPON THE ACCOUNTING FOR AND THE PAYMENT OF INTEREST THE LENDER'S EXPOSURE CAN BE GREATER OR LESSER.

FOR THE BORROWER THE OBVERSE RISK IS INVOLVED: THE PROSPECT OF PAYING OFF THE BALANCE OF THE LOAN AT THE END OF THE TERM AND THE IMPLICATIONS FOR CONTINUED OCCUPANCY. THE OPTIONS AVAILABLE TO THE BORROWER AT THAT POINT ARE RELATED TO THE LEVEL OF RISK THAT THE LENDER IS WILLING TO ASSUME. IMPORTANT FACTORS

RELEVANT TO RISK FOR EACH PARTY ARE THE LIFE EXPECTANCY PROSPECTS FOR THE BORROWER, THE PROSPECTS FOR A CHANGE IN RESIDENCE DURING OR AT THE END OF THE MORTGAGE TERM, APPRECIATION IN COLLATERAL PROPERTY VALUE DURING THE TERM, AND TERM OVER WHICH THE LENDER IS WILLING TO ASSUME RISK.

THE CHFA REVERSE ANNUITY MORTGAGE PROGRAM (RAM) FORWARDS A MONTHLY PAYMENT TO THE BORROWER OVER A TEN YEAR PERIOD, AS A SUPPLEMENT TO INCOME. ALL BORROWERS OR CO-BORROWERS MUST BE AT LEAST 65 YEARS OF AGE AND THE HOUSEHOLD MUST BE BELOW 50 PERCENT OF THE AREA MEDIAN INCOME AS DESIGNATED BY HUD, THOUGH CHFA ADAPTS THESE INCOME STANDARDS FOR USE ON A COUNTY BASIS.

THE CHFA RAM PROGRAM HAS SOUGHT TO ADDRESS THE RISK FACTORS INVOLVED IN EQUITY CONVERSIONS IN THE FOLLOWING WAY:

O AS A LENDER:

- CHFA LENDS FOR PORTFOLIO AND IS THEREFORE NOT CONCERNED WITH A SECONDARY MARKET;
- CHFA LOOKS ONLY TO THE EVENTUAL SALE OF THE PROPERTY FOR RECOVERY OF THE OUTSTANDING BALANCE;
- LOAN MAXIMUMS ARE THE LESSER OF 80 PERCENT OF APPRAISED VALUE OR $80,000;
- INTEREST DUE IS SUBTRACTED FROM THE PAYMENT BEFORE THE CHECK IS CUT AND FORWARDED TO THE BORROWER;
- AT THE END OF THE TEN YEAR PERIOD OR WHEN THE BORROWER IS NO LONGER A FULL-TIME RESIDENT OF THE PROPERTY THE LOAN BALANCE IS DUE;

- HOWEVER, CHFA WILL NOT CALL THE ACTUAL BALANCE DUE AT THAT POINT IF THE BORROWER IS ABLE AND WISHES TO MAINTAIN FULL-TIME OCCUPANCY;
- AT THIS POINT CHFA WILL CARRY THE LOAN BALANCE AS AN ASSET UNTIL FULL-TIME OCCUPANCY CEASES OR UNTIL THE DEATH OF THE BORROWER;
- CHFA WILL BE WILLING TO EXTEND FURTHER PAYMENTS TO THE BORROWED BASED ON 80 PERCENT OF THE APPRECIATED VALUE OF THE PROPERTY, AT A CURRENT RATE OF INTEREST PENDING AVAILABILITY OF FUNDS;
- IN NO CASE WILL CHFA FORCE THE SALE OF THE PROPERTY OR REFINANCING IN ORDER FOR THE LOAN BALANCE TO BE PAID AS LONG AS FULL-TIME OCCUPANCY IS MAINTAINED.

O FOR THE BORROWER:

- PAYMENT ON THE FIRST OF THE MONTH FOR TEN YEARS IS ASSURED;
- THE LOAN CAN BE DISCONTINUED OR PREPAID AT ANY POINT DURING THE TERM AT THE DISCRETION OF THE BORROWER;
- FULL-TIME OCCUPANCY FOR AS LONG AS DESIRED, WITHOUT THE NECESSITY OF REPAYMENT IS ASSURED;
- THERE IS THE POSSIBILITY OF CONTINUED PAYMENTS AT THE END OF THE TEN YEAR TERM.

> CHFA FEELS THAT BORROWER INSECURITY ABOUT THEIR STATUS AT THE END OF THE LOAN TERM MUST BE ADDRESSED IN A SATISFACTORY MANNER IN ORDER FOR ANY HOME EQUITY CONVERSION PROGRAM TO BE SUCCESSFUL. THERE MAY BE A VARIETY OF WAYS TO INSURE LENDER RISK BUT IF THE HOMEOWNER/BORROWER IS NOT SATISFIED WITH THE LEVEL OF RISK REGARDING CONTINUED OCCUPANCY THE FUNDS WILL NOT BE BORROWED.

ANOTHER CSHA MEMBER, THE ARKANSAS DEVELOPMENT FINANCE AUTHORITY INITIATED A DEMONSTRATION OF A HOME EQUITY CONVERSION PROGRAM. THE DEMONSTRATION WAS BEGUN ABOUT TWO YEARS AGO IN ONE COUNTY OF THE STATE. PARTICIPANTS MUST BE 70 YEARS OF AGE AND HAVE AN INCOME LESS THAN 125% OF MEDIAN FOR A TWO PERSON HOUSEHOLD. THE BASIC CONCEPT IS THAT THE PARTICIPANT GRANTS THE STATE AUTHORITY A REMAINDER DEED TO THE PROPERTY WHICH CONVEYS TITLE WHEN THE OWNER DIES OR LEAVES THE PROPERTY FOR ANOTHER PERMANENT LIVING ARRANGEMENT. IN EXCHANGE FOR THE DEED, THE OCCUPANT RECEIVES A MONTHLY ANNUITY CHECK FOR THE REST OF HIS LIFE (WHETHER IN THE HOME OR NOT), MAINTENANCE ON THE HOME IS PAID FOR BY ADFA AND TAXES, AND INSURANCE ARE PAID BY ADFA. A MARKETING PLAN WHICH UTILIZED PRINTED MATERIALS AND PUBLIC SERVICE TIME FROM LOCAL MEDIA GENERATED OVER 600 INQUIRIES.

THERE WERE VERY FEW OF THOSE WHO INQUIRED THAT WERE INTERESTED IN PARTICIPATING IN THE PROGRAM. ABOUT TEN PERCENT WERE INTERESTED OR QUALIFIED FOR PURSUING PARTICIPATION IN THE PROGRAM AFTER LEARNING OF THE GUIDELINES. THE SINGLE MOST OBJECTIONABLE ASPECT WAS GIVING UP OWNERSHIP OF WHAT IN MANY CASES WAS THEIR MOST VALUABLE ASSET. THE ATTACHMENT IS NOT ONLY A MONETARY ONE, THE FAMILY HOME HAS MANY PERSONAL AND SENTIMENTAL TIES WHICH MAKE IT DIFFICULT FOR ONE TO DEED THE HOME TO A STATE AGENCY.

OF THE TEN PERCENT WHO WERE INTERESTED IN PURSUING THE PROGRAM, THE SINGLE PROBLEM WHICH DISQUALIFIED THEM FROM PARTICIPATION WAS A VERY DILAPIDATED PIECE OF PROPERTY. THE HOUSES WERE IN WORSE PHYSICAL CONDITION THAN THE ELDERLY INHABITANTS. APPRAISERS OPINED THAT THE COST OF REPAIR OF THE PROPERTIES WAS EQUAL TO THE VALUE IN MANY CASES. THIS MEANT THAT THERE WOULD BE NO VALUE FROM WHICH AN ANNUITY COULD BE FUNDED.

THE MOST GLARING NEED DEMONSTRATED BY THE PROGRAM IS A HOME IMPROVEMENT PROGRAM TARGETED TO ELDERLY FIXED INCOME HOMEOWNERS. IF SUCH A PROGRAM CAN BE TAKEN ADVANTAGE OF EARLY ENOUGH, THE EFFECT WOULD BE ONE OF PREVENTIVE MAINTENANCE SO THAT THE HOMES WILL NOT DETERIORATE TO THE POINT OF NO VALUE.

FOR THE BENEFIT OF THE COMMITTEE WE WILL PROVIDE REACTIONS TO THE DEMONSTRATION HOME EQUITY CONVERSION INSURANCE PROGRAM OUTLINED IN H.R. 4:

- O ONE OF THE STATED PURPOSES OF THIS DEMONSTRATION PROGRAM IS TO FOSTER THE INVOLVEMENT OF THE SECONDARY MORTGAGE MARKETS IN SUPPLYING CAPITAL FOR THIS LENDING. IT IS UNCLEAR

HOW THIS WOULD WORK SINCE THERE IS TYPICALLY A LONG "PAY-OUT" PERIOD WITH RETURN REALIZED AT THE END OF THE TERM, AND BOTH THE END OF THE TERM AND THE PRINCIPAL TO BE RETURNED WOULD NOT BE UNIFORM.

- THE INCLUSION OF A MANDATORY COUNSELING COMPONENT IS WISE, AS IS THE INCLUSION OF COUNSELING WITH REGARD TO THE IMPLICATIONS OF LOANS THAT GO BEYOND THE ACTUAL FINANCIAL TERMS OF THE INSTRUMENT SUCH AS TAX CONSEQUENCES, THE EFFECT ON ELIGIBILITY FOR OTHER GOVERNMENT BENEFIT PROGRAMS, AND OTHER CONSEQUENCES.

- THE PLEDGE OF PROTECTION TO THE HOMEOWNER/MORTGAGOR IN THE EVENT OF THE DEFAULT BY THE LENDER IS AN IMPORTANT COMPONENT OF THE DEMONSTRATION PROGRAM. THE "PAY-OUT" TO THE MORTGAGOR BY THE MORTGAGEE IS AS AN ESSENTIAL COMPONENT OF THIS TRANSACTION AS THE PAYBACK AT THE END OF THE TERM, UNLIKE CONVENTIONAL LENDING WHEREBY THE MORTGAGOR IS VIRTUALLY ASSURED OF THE AVAILABILITY OF FUNDS AT THE TIME OF CLOSING.

- THE POSSIBILITY OF THE MORTGAGOR BEING REQUIRED TO PAY RENT TO FHA IS A NEGATIVE ASPECT THAT INCREASES THE RISK FOR THE BORROWER AND COULD DEPRESS PARTICIPATION. THIS COULD ADD A LIABILITY ONTO A LARGELY FIXED INCOME STREAM THAT COULD HAVE BEEN SUBJECT TO SUBSTANTIAL INFLATION EROSION SINCE THE TERM OF THE MORTGAGE BEGAN, AND MAY BE NEEDED BY A FRAILER MORTGAGOR TO PAY FOR OTHER SUPPORT SERVICES. AN ALTERNATIVE MAY BE TO HOLD THE BALANCE AS A LIEN AGAINST THE PROPERTY WITH THE INTEREST ACCRUING AND PAYABLE UPON THE OTHERWISE APPLICABLE CONDITIONS.

- IT MAY BE APPROPRIATE TO CONSIDER LUMP SUM DISTRIBUTIONS AT CLOSING FOR ANY PURPOSES THE SECRETARY DEEMS APPROPRIATE SUCH AS LIEN LIQUIDATION, RETIREMENT OF MEDICAL BILLS, DEBT CONSOLIDATION, OR HOME IMPROVEMENTS. THIS WOULD BY DEFINITION REDUCE THE MONTHLY PAYMENT TO THE BORROWER, AND WOULD BE OFFERED AND EXPLAINED TO THE BORROWER AS AN OPTION.

- IT MAY BE APPROPRIATE TO PROVIDE FOR A PAYMENT SCHEDULE THAT DOES INCREASE ANNUALLY TO COVER INCREASED COST OF LIVING, PROVIDED THAT THE TOTAL AMOUNT ADVANCED TO THE BORROWER DOES NOT EXCEED THE OTHER APPLICABLE LIMITS ON MAXIMUM LOAN AMOUNTS.

- THE HOUSE LEGISLATION DOES NOT REQUIRE THAT BOTH SPOUSES, WHO ARE OCCUPANTS OF THE PROPERTY, BE OVER 65 YEARS OF AGE. IF CONTINUED OCCUPANCY OF THE PROPERTY IS TO BE ASSURED TO THE OCCUPANTS, THE ACTUARIAL RISK OF THIS CAN BE REDUCED BY REQUIRING EACH BE OF THE ELIGIBLE AGE.

CSHA AND ITS INDIVIDUAL MEMBER AGENCIES STAND READY TO ASSIST THE CONGRESS IN DEVELOPING THIS DEMONSTRATION PROGRAM AND

FURTHER EXPLORING THE MEANS OF ENCOURAGING INCREASED PUBLIC AND PRIVATE SECTOR INVOLVEMENT IN THIS LENDING ACTIVITY. FOR YOUR INFORMATION, RHODE ISLAND, IN ADDITION TO CONNECTICUT AND ARKANSAS, HAS AN ACTIVE HOME EQUITY CONVERSION PROGRAM.

## RENTAL HOUSING

### HODAG, CDBG, UDAG FUNDING

PROGRAMS SUCH AS THE HODAG, CDBG AND UDAG HAVE ALWAYS BEEN AN INTEGRAL PART OF THE HOUSING PRODUCTION PROCESS FOR CSHA MEMBERS. AS DISCUSSED EARLIER, THE DOUBLE WHAMMY OF THE FEDERAL GOVERNMENT'S CONTINUING RETREAT FROM PROVIDING HOUSING TO LOW INCOME FAMILIES AND INDIVIDUALS, AND THE ADVERSE EFFECTS OF THE TAX REFORM MAKE THE AVAILABILITY OF THESE PROGRAMS CRITICAL TO THE PRODUCTION OF LOW INCOME HOUSING.

THE CDBG, UDAG AND THE HODAG PROGRAMS HAVE PROVIDED THE IMPETUS TO BUILD NEW OR REHABILITATE HUNDREDS OF THOUSANDS OF MULTI-FAMILY AND SINGLE FAMILY HOUSING UNITS THROUGHOUT THE UNITED STATES.

FOR EXAMPLE THE MICHIGAN HOUSING DEVELOPMENT AUTHORITY (MSHDA) ADMINISTERS THE FEDERAL SMALL CITIES CDBG PROGRAM FOR THE STATE OF MICHIGAN. SINCE PROGRAM INCEPTION IN 1982, IT HAS AWARDED NEARLY $19.5 MILLION IN GRANT FUNDS TO THE SMALLER CITIES, TOWNSHIPS AND RURAL COMMUNITIES OF OUR STATE. OVER 4,700 UNITS OF HOUSING HAVE BEEN RENOVATED OR REPAIRED THROUGH THIS PROGRAM. NINETY-SEVEN PERCENT OF THE FAMILIES AND INDIVIDUALS ASSISTED UNDER THIS PROGRAM HAVE INCOMES WITHIN THE SECTION 8 GUIDELINES. THE AVERAGE INCOME OF HOUSEHOLDS ASSISTED UNDER THIS PROGRAM IS $7,800. THE PROGRAM IS OF PARTICULAR BENEFIT TO FEMALE-HEADED HOUSEHOLDS AND THE ELDERLY AS 44 PERCENT OF THE HOUSEHOLDS ASSISTED ARE FEMALE-HEADED AND 37 PERCENT OF THE HOUSEHOLDS ARE ELDERLY. MOREOVER, NEARLY 10 PERCENT OF THE HOUSEHOLDS ASSISTED ARE HANDICAPPED. APPROXIMATELY 22 PERCENT OF THE HOUSEHOLDS ASSISTED ARE MINORITY HOUSEHOLDS.

IN ADDITION TO THE SMALL CITIES CDBG PROGRAM, MSHDA WORKS EXTENSIVELY WITH ENTITLEMENT COMMUNITIES TO HELP THEM IMPROVE THEIR HOUSING STOCK. MANY ENTITLEMENT COMMUNITIES USE THEIR CDBG UNITS AS CONSTRUCTION COST WRITE-DOWNS, TO ACQUIRE LAND FOR HOUSING, TO PROVIDE LOW INTEREST LOANS FOR LOW INCOME HOUSEHOLDS, ETC. THE CITY OF GRAND RAPIDS, FOR INSTANCE, IS USING CDGB FUNDS IN CONJUNCTION WITH ZERO PERCENT INTEREST MSHDA FUNDS TO PROVIDE REHABILITATION LOANS TO LOW INCOME, HIGH RISK HOUSEHOLDS.

UDAGs AND HODAGs HAVE ALSO BECOME A VERY IMPORTANT PART OF THE LOW INCOME HOUSING FINANCE EQUATION IN MICHIGAN. MSHDA RECENTLY COMMITTED TO PROVIDE FINANCING FOR A HOUSING DEVELOPMENT IN DETROIT WITH A TOTAL COST OF OVER $28 MILLION. WITHOUT A COMBINATION OF A $2.5 MILLION UDAG, CDBG FUNDS AND TAX-EXEMPT BOND FINANCING, THIS PROJECT, WHICH WILL HAVE THE MAJORITY OF ITS 334 UNITS AFFORDABLE TO INDIVIDUALS WITH INCOMES AT OR BELOW THE

STATE'S MEDIAN INCOME, WOULD NOT BE ECONOMICALLY FEASIBLE.

DESPITE THE DIFFICULTIES WE INITIALLY EXPERIENCED WITH THE HODAG PROGRAM WHEN IT WAS NEW, THIS HAS BEEN AN EXCELLENT PROGRAM FOR THE STATE OF MICHIGAN. THE HODAG STAFF IN BOTH WASHINGTON AND IN THE AREA OFFICES OF OUR HOME STATE HAVE PUT FORTH A TREMENDOUS EFFORT TO EDUCATE LENDERS, DEVELOPERS AND GOVERNMENT PERSONNEL ON HOW TO APPLY FOR AND PROCESS HODAG DEVELOPMENTS. AT MSHDA, WE HAVE EITHER FINANCED OR WILL BE PROVIDING FINANCING FOR 10 HODAG PROJECTS ENCOMPASSING NEARLY 1,300 UNITS. APPROXIMATELY 400 OF THESE UNITS WILL HAVE RENTS AFFORDABLE TO LOW AND VERY LOW INCOME FAMILIES EXCEEDING THE 20 PERCENT STATUTORY PROGRAM REQUIREMENT BY A SIGNIFICANT AMOUNT. WE ESTIMATE THAT THE DEVELOPMENT COST OF THESE UNITS MEANS ABOUT $45 MILLION IN HOUSING INVESTMENT IN SOME OF OUR STATE'S MOST DISTRESSED AREAS. HODAG FUNDS TRANSLATE NOT ONLY INTO HOUSING UNITS BUT IN JOBS, ECONOMIC DEVELOPMENT AND TAX BASE STABILITY.

THE MICHIGAN EXAMPLE IS TYPICAL OF THE NEED FOR THESE PROGRAMS ON A NATIONAL LEVEL. THEY HAVE BECOME ESSENTIAL TO EFFORTS TO PROVIDE AFFORDABLE, SAFE, SANITARY AND DECENT HOUSING IN MICHIGAN AND THE NATION. IT IS IMPERATIVE THAT THE HOUSING BILL RE-AUTHORIZE THESE VITAL PROGRAMS AT LEVELS AT LEAST EQUIVALENT TO CURRENT AUTHORIZATION.

## BOARD AND CARE HOMES (§ 232)

WHY BOARD AND CARE HOMES? THERE ARE PROBABLY AS MANY ANSWERS TO THIS QUESTION AS THERE ARE PEOPLE RENDERING OPINIONS. HOWEVER, FOUR GOOD REASONS ARE:

1. OUR POPULATION IS GROWING OLDER;
2. THE ELDERLY ARE MORE HEALTHY;
3. THE ELDERLY ARE STRONGER, BOTH ECONOMICALLY AND POLITICALLY;
4. IT HAS BEEN ESTIMATED THAT AT LEAST 10 PERCENT TO 12 PERCENT OF THE EXISTING NURSING HOME POPULATION DO NOT NEED TO BE RESIDING THERE.

MOST OF THE STATES DO NOT SUBSIDIZE BOARD AND CARE HOMES BUT IN MANY CASES IT SEEMS NECESSARY THROUGH THE UTILIZATION OF MEDICAID AND SOCIAL SECURITY TO ASSIST IN THE MONTHLY RENTAL CHARGES.

AS WE GROW OLDER, OUR INCOME DECLINES AND THE NEED FOR A TAX SHELTER OF HOMEOWNERSHIP DIMINISHES. THAT COUPLED WITH THE RIGORS OF KEEPING UP THE HOMEPLACE STARTS TAKING ITS TOLL.

A BOARD AND CARE HOME IS A POSSIBLE CHOICE. OTHER CHOICES WOULD BE A RETIREMENT SERVICE CENTER OR, OF COURSE, STAY IN THEIR

LARGE THAN NEEDED HOME. RETIREMENT SERVICE CENTERS ARE HOUSING DESIGNED FOR THE ELDERLY BUT ARE REALLY FOR THE MIDDLE AND UPPER INCOME, WHEREAS BOARD AND CARE HOMES ARE FOR THE MIDDLE AND LOWER INCOME.

THE BOARD AND CARE HOME OCCUPANT, ALTHOUGH SOMEWHAT SLOWER PHYSICALLY, MUST BE IN REASONABLY GOOD HEALTH. THE OCCUPANT, BASED ON STATISTICS STANDS A GOOD CHANCE OF ADDING TEN ADDITIONAL YEARS TO HIS LIFE BY BEING IN A CONGREGATE HOUSING COMPLEX. HE CAN CERTAINLY EXPECT TO DECREASE THE LIKELIHOOD OF BEING CONFINED TO A NURSING HOME FACILITY FOR FIVE TO SEVEN YEARS. THE MEDICAL VALUE OF A BOARD AND CARE FACILITY IS PREVENTIVE MEDICINE.

THIS IS BASED ON:

- LIVING IN A CONTROLLED ENVIRONMENT;
- ELIMINATION OF ACCIDENTAL OR CRIMINAL INVOLVEMENT;
- INCREASED COMPANIONSHIP WITH OWN AGE GROUP;
- 24-HOUR ON CALL TELEPHONE ASSISTANCE IN THE ROOMS;
- CONSUMPTION OF DAILY FOOD REQUIREMENTS WITHOUT THE REQUIRED PREPARATORY EFFORTS INVOLVED;
- A REGULARLY SCHEDULED MAID AND CLEANING SERVICE; AND
- PLANNED ACTIVITIES PROMOTING INDEPENDENCE.

THIS FEATURE OF BOARD AND CARE FACILITIES PRESENTS A STRONG JUSTIFICATION FOR SOME MEDICAID REIMBURSEMENT FOR THE SERVICES PROVIDED.

THE OCCUPANT HAS A GREAT DEAL TO GAIN, BUT AS IN ANY LIFESTYLE CHANGE, A GREAT DEAL TO GIVE UP, SO THE DESIGN OF THE FACILITY IS EXTREMELY IMPORTANT. THE DESIGN SHOULD BE AS DEINSTITUTIONALIZED AS POSSIBLE. IDEALLY, A ONE STORY STRUCTURE IS BEST, BUT CERTAINLY NOT THE ONLY WAY.

A COMMON AREA WOULD BE PROVIDED TO INCLUDE A LIVING ROOM ATMOSPHERE, DINING ROOM, KITCHEN AND LAUNDRY. FURTHER ADDITIONS COULD BE EXERCISE ROOM, ARTS AND CRAFT ROOMS, BUT KEEP IN MIND THE RELATIONSHIP OF COST AND AFFORDABLE AND COMPETITIVE RENTS.

INDIVIDUAL ROOMS CAN BE DESIGNED FOR BOTH PRIVATE AND/OR SEMI-PRIVATE. THERE CAN BE PRIVATE BATHS, SEMI-PRIVATE BATHS, BUT NOT LESS THAN ONE FULL BATH FOR FOUR PEOPLE. THESE CHOICES SHOULD BE DIRECTED TO THE PEOPLE BEING SERVED, WHAT THEY CAN AFFORD AND ARE WILLING TO PAY.

BOARD AND CARE HOMES ARE REALLY A NEW PRODUCT, THEREFORE FINANCING OF THESE PROJECTS IS ALSO NEW. THE ONLY PROGRAM TODAY IS THE "HUD" 232 BOARD AND CARE FHA-INSURED PROGRAM. FNMA AND OTHER MORTGAGE INSURERS HAVE NOT APPROVED ANY OF THESE PROJECTS. THE 232 PROGRAM ALLOWS THE FOLLOWING:

- 90 PERCENT LOAN-TO-VALUE RATIO LOANS;

- 40-YEAR FULLY AMORTIZED LOANS;

- NO PERSONAL LIABILITY; AND

- BOND FINANCING CARRYING A MINIMUM OF AN "AA" RATING.

HOWEVER, THERE IS A BARRIER TO PARTICIPATING IN THIS PROGRAM. AS AN EXAMPLE, THERE WERE THREE PROJECTS LOCATED IN DIFFERENT AREAS OF ARKANSAS, SUBMITTED TO THE HUD AREA OFFICE FOR SAMA APPLICATION PROCESSING. ALL THREE PROJECTS WERE REJECTED BECAUSE THEY WERE DEFICIENT IN TERMS OF POTENTIAL MARKET. THIS AREA OFFICE BASED THEIR MARKET DEMAND, ASSUMING THAT 10 PERCENT OF THE PROJECTED PERSONS 80(+) LIVING ALONE AND 5 PERCENT OF THE PROJECTED PERSONS 80(+) LIVING IN TWO OR MORE PERSON HOUSEHOLDS WOULD BE AVAILABLE FOR BOARD AND CARE HOMES. THE CRITERIA FOR DETERMINING THAT THE MARKET FOR BOARD AND CARE HOMES IS PRINCIPALLY AMONG PERSONS 80 YEARS OF AGE AND OLDER CAME FROM HUD'S WASHINGTON OFFICE EMAD DIVISION.

THE ARKANSAS DEVELOPMENT FINANCE AUTHORITY AND THE STATE OFFICE OF LONG-TERM CARE DISAGREE WITH THIS ANALYSIS AND BELIEVE THE MARKET SHOULD BE EXPANDED TO INCLUDE PERSONS 65 YEARS AND OLDER. STATISTICS SHOW THAT THE 80(+) POPULATION COHORT IS THE HIGHEST RISK FOR REQUIRING NURSING HOME AND, IN FACT, THE PERCENTAGE INCREASES DRAMATICALLY OVER THE 70 TO 80 YEAR OLD COHORT.

THE BEST WAY TO REDUCE THAT PHENOMENON IS TO INITIATE VIABLE INDEPENDENT LIVING ARRANGEMENTS FOR THE AGE COHORTS UNDER 80 YEARS. SO, THE MARKET FOR BOARD AND CARE HOMES SHOULD INCLUDE ALL AGES WHICH ARE WITHIN 5 TO 10 YEARS OF BEING AT RISK FOR REQUIRING NURSING HOME CARE.

BOARD AND CARE FACILITIES ARE NOT HEALTH CARE FACILITIES LIKE NURSING HOMES. THEIR PRINCIPAL PURPOSE IS TO PROVIDE AN ALTERNATIVE FOR PERSONS WHO MUST LEAVE THEIR HOMES BUT OTHERWISE HAVE NO ALTERNATIVE THAN A NURSING HOME. FULL-TIME SKILLED MEDICAL CARE IS NOT A PART OF THE SERVICES OFFERED. THEREFORE, THE REQUIREMENT THAT DEVELOPERS OBTAIN A CERTIFICATE OF NEED FROM THE OFFICES OF LONG-TERM CARE IS NOT APPROPRIATE.

AS AMERICA AGES, AND THE NEED FOR HOUSING VARIOUS COMPONENTS OF THE ELDERLY POPULATION INCREASES, THIS PROGRAM WILL BECOME MORE IMPORTANT. WE URGE THAT IT, ALONG WITH THE SUGGESTED CHANGES, BE INCLUDED IN THIS YEAR'S HOUSING BILL AND EVERY ONE THEREAFTER.

## RETAINING STOCK FOR LOW INCOME FAMILIES

ACCORDING TO A JUNE 1986 GENERAL ACCOUNTING OFFICE STUDY DONE FOR CONGRESSMAN BARNEY FRANK, CHAIRMAN OF THE U.S. HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE ON EMPLOYMENT AND HOUSING, THERE ARE 164,000 UNITS OF SECTION 236 INSURED AND ASSISTED UNITS

THAT COULD PREPAY THEIR MORTGAGES AND BE LOST FROM THE SUBSIDIZED HOUSING INVENTORY BY FY 1995. WHILE THE SPECIFIC FIGURES ARE NOT AVAILABLE, A SIGNIFICANT NUMBER OF UNINSURED SECTION 236 ASSISTED UNITS WILL BE REACHING A SIMILAR POSITION WITHIN THIS TIME FRAME. THE FACT THAT UNINSURED STATE AGENCY FINANCED PROJECTS GENERALLY WERE SUBJECTED TO MORE STRINGENT UNDERWRITING CRITERIA INCREASES THE POTENTIAL THAT THESE PROJECTS WILL BE ATTRACTIVE TO THE "MARKET", THEREBY INCREASING THE NUMBER OF LOW INCOME UNITS LOST.

IN THE AREA OF SECTION 8 NEW CONSTRUCTION, SOME STATES ARE ALREADY FACING PREPAYMENT OF MORTGAGE LOANS. THEY ARE FINDING THEMSELVES VICTIMS OF THEIR OWN GOOD UNDERWRITING, AND IN SOME CASES A STRONG DESIRE BY HUD TO DIVEST ITSELF OF EXPENSIVE SECTION 8 CONTRACTS. BY NOT DEVELOPING STRONG INCENTIVES FOR OWNERS TO STAY WITH THE SECTION 8 PROGRAM, WE RUN THE RISK OF LOSING A PERCENTAGE OF THE PORTFOLIO. MANY FEEL, IN FACT, THAT HUD IS ACTIVELY SEEKING WAYS AND MEANS TO ENCOURAGE OWNERS TO OPT OUT OF THE PROGRAM.

CSHA AND OTHERS, THROUGH INTERNAL TASK FORCES AND VARIOUS OTHER MEANS, ARE SEEKING WAYS TO LOCK-IN OWNERSHIP OF SUBSIDIZED INVENTORY FOR THE CONTINUED BENEFIT OF LOW AND MODERATE INCOME PERSONS. WE MUST TAKE EVERY STEP NECESSARY TO STEM THE POTENTIAL EROSION OF LOW INCOME INVENTORY. HUD SHOULD BE REQUIRED TO EXPLORE INCENTIVES FOR OWNERS OF HUD RENTAL PROJECTS (BOTH INSURED AND UNINSURED) WHICH HAVE EXPIRING USE RESTRICTIONS. OTHER SUGGESTED PROGRAMS INCLUDE THE USE OF THE NEW 4 PERCENT TAX CREDITS FOR EXISTING HOUSING, EXPANSION OF THE FLEXIBLE SUBSIDY PROGRAM, AND OTHER POTENTIAL LEGISLATION WHICH WOULD PROVIDE INCENTIVES FOR OWNERSHIP TO REMAIN IN THE LOW INCOME MARKET. A SPECIFIC SECTION TO H.R. 4 ADDRESSES THIS POINT THROUGH THE CREATION OF A MULTIFAMILY HOUSING PRESERVATION FUND (SPONSORED BY REP. BARNEY FRANK, D-MA.). CSHA URGES THE SENATE TO ADOPT A SIMILAR PROVISION IN ITS HOUSING BILL.

UNDER THE "DeWILDE AGREEMENTS," HUD RESERVED A "POOL" OF SECTION 236 CONTRACT AND BUDGET AUTHORITY FOR PROJECTS FINANCED BY STATE MORTGAGEES. SINCE THE ORIGINAL AGREEMENT IN 1975, THESE POOLS HAVE BEEN USED TO SUBSIDIZE MORTGAGE INCREASES AND PROVIDE ADDITIONAL UNITS UNDER THE RENTAL ASSISTANCE PAYMENT (RAP) PROGRAM. IN SEPTEMBER OF 1986, U.S. SENATE COMMITTEE REPORT LANGUAGE RELATING TO THE FY 1987 OMNIBUS APPROPRIATIONS BILL DIRECTED HUD TO FUND STATE AGENCY REQUESTS FOR "POOL" SUBSIDIES FOR MORTGAGE INCREASES AND RAP/RENT SUPPLEMENT UNITS WITHIN 45 DAYS OF APPLICATION.

APPLICABLE TO AT LEAST ONE-HALF DOZEN STATE AGENCIES, THIS FUND CONSISTS OF VARYING AMOUNTS OF INTEREST REDUCTION ANNUAL CONTRACT AUTHORITY SET ASIDE TOTALING SEVERAL MILLION DOLLARS. CSHA, LED BY THE MICHIGAN, NEW YORK, NEW JERSEY, VIRGINIA, AND MASSACHUSETTS AGENCIES, HAS BEEN AT THE FOREFRONT OF EFFORTS TO DETERMINE AN AGREEMENT FOR THE USE OF THESE FUNDS. THE PREVIOUSLY DISCUSSED DECLINING NUMBER OF TOOLS AVAILABLE TO STATE AGENCIES TO HELP MAINTAIN LOW INCOME OCCUPANCY, NECESSITATES THAT THE

MAXIMUM FLEXIBILITY BE INCORPORATED INTO THE AGREED UPON USES OF THIS FUND. STATE AGENCIES HAVE PROPOSED AND REQUIRE THE ABILITY TO USE THE FUNDS AS FOLLOWS:

- THE PROVISION OF ADDITIONAL RENT SUPPLEMENT AND RENTAL ASSISTANT PAYMENT UNITS.
- PROVIDE FOR A METHOD OF PAYMENT IN MEETING THE 10 PERCENT MATCH FOR RAP AND RENT SUPPLEMENT.
- SECTION 236 NON-INSURED MORTGAGE INCREASES.
- SECOND MORTGAGE APPLICATION.
- ADDITIONAL SECTION 236 SUBSIDY IN PARTIALLY ASSISTED PROJECTS.
- POTENTIAL MORTGAGE TERM EXTENSIONS.
- OPERATING LOSS LOANS.

DURING THE 99TH CONGRESS THIS COMMITTEE AT THE URGING OF SENATOR D'AMATO (R-NY) REQUIRED IN H.R. 5313 THAT HUD IMMEDIATELY RELEASE 236 FUNDS. THE REPORT LANGUAGE (SEE REPORT 99-487, CALENDAR NO. 992, PAGE 10) SHOULD BE INCLUDED IN ANY BILL PASSED THIS YEAR. SUCH FUNDS SHOULD BE RELEASED IMMEDIATELY FOR ANY OR ALL OF THE PURPOSES OUTLINED ABOVE.

RENTAL ASSISTANCE PAYMENT (RAP) AND RENT SUPPLEMENT (RS) ARE THE TWO BASIC TYPES OF DEEP SUBSIDY UTILIZED IN THE 236 HOUSING PROGRAM. RENT SUBSIDIES ARE PROVIDED BY HUD DIRECTLY TO THE OPERATING ACCOUNTS OF EACH CONTRACTED DEVELOPMENT. RAP AND RENT SUPPLEMENT PAY THE DIFFERENCE BETWEEN 30 PERCENT OF A QUALIFIED HOUSEHOLD'S ADJUSTED INCOME AND THE 236 BASIC RENT. THE OVERALL VALUE OF THESE RAP/RS SUBSIDIES HAVE BEEN REDUCED BECAUSE AMENDMENTS TO THE CONTRACTS HAVE NOT KEPT PACE WITH INCREASING COSTS. RECENTLY HUD HAS AMENDED THE FUNDING MECHANISM FOR THESE PROGRAMS BASED UPON LEGISLATION TO REQUIRE THAT OWNERS PAY 10 PERCENT OF PROJECTED SHORTFALLS IN RAP/RS CONTRACTS. OWNERS HAVE NOT AGREED TO FUND THIS DIFFERENCE. IN FACT, NON-PROFIT SPONSORS DO NOT HAVE THE MEANS TO FUND THIS PORTION. IN BOTH INSTANCES THE END RESULT IS A REDUCTION IN THE NUMBER OF LOW INCOME UNITS.

TO STEM THIS EROSION, ANY HOUSING BILL PASSED BY THE 100TH CONGRESS SHOULD INCLUDE SUFFICIENT FUNDING FOR THE RAP/RS PROGRAM SO THAT CURRENT CONTRACTS CAN BE MET. THE ACCOMPANYING REPORTS SHOULD REQUIRE HUD TO CONTINUE TO LIVE UP TO ITS OBLIGATIONS WITH RESPECT TO THIS PROGRAM.

## FLEXIBLE SUBSIDY PROGRAM

THE FLEXIBLE SUBSIDY PROGRAM IS ANOTHER VALUABLE PROGRAM THAT PROVIDES TWO BENEFITS TO STATE AGENCIES WITH SECTION 236 PROJECTS. IT PROVIDES DEFERRED (1 PERCENT) LOANS AND EXTENDED LOCK INS. MASTER CONTRACTS ENTERED INTO IN 1984 HAVE BEEN PARTIALLY FUNDED BUT THE REMAINING FUNDS HAVE NOT BEEN ALLOCATED

BECAUSE HUD HAS SEVERELY DELAYED ITS PROCESSING ON A NUMBER OF AGENCIES' REQUESTS.

IN ORDER TO ASSIST THEIR TROUBLED PROJECTS, STATE AGENCIES NEED ASSURANCE FROM HUD THAT PROGRAM GUIDELINES AND DEPARTMENTAL PROCEDURES WILL NOT IMPEDE THEIR ABILITY TO SPEND FLEXIBLE SUBSIDY FUNDS. AGENCIES WOULD ALSO LIKE ASSURANCES THAT A PORTION OF THE FLEXIBLE SUBSIDY FUNDS BE PROVIDED EACH YEAR TO UNINSURED PROJECTS IN ORDER TO ASSIST THE MOST TROUBLED STATE AGENCY PROJECTS. THE STATE AGENCY PORTION SHOULD EQUAL THE PERCENTAGE OF SECTION 236 UNITS TO THE TOTAL UNIVERSE OF SECTION 236 UNITS (THIS CONCEPT ADOPTED BY THEN SENATE BANKING CHAIRMAN GARN AND SENATORS D'AMATO AND LAUTENBERG IN A SENATE COLLOQUY ON JUNE 21, 1983 (CONGRESSIONAL RECORD, PAGE S 8792)). WE ASK THAT THESE CONSIDERATIONS BE INCORPORATED INTO THIS COMMITTEE'S HOUSING BILL.

### ADMINISTRATIVE FEES

STATE HOUSING FINANCE AGENCIES, WHICH IN SOME CASES ARE PUBLIC HOUSING AUTHORITIES FOR PURPOSES OF THE SECTION 8 EXISTING PROGRAM, SUPPORT THOSE SECTIONS OF H.R. 4 RELATING TO ADMINISTRATIVE FEES PAID TO PUBLIC HOUSING AUTHORITIES (PHA'S) FOR ADMINISTERING THE SECTION 8 EXISTING RENTAL ASSISTANCE CERTIFICATE AND VOUCHER PROGRAMS. SECTIONS 232 (A) AND SECTIONS 235(E) OF H.R. 4 PROVIDE THAT ADMINISTRATIVE FEES SHALL BE AT THE PERCENTAGE AND CALCULATED BY THE SAME METHOD AT THE RATE AND IN THE MANNER ESTABLISHED BY HUD IN EFFECT ON JANUARY 1, 1985. THIS MEANS THAT

THE ADMINISTRATIVE FEE IS SET AT 8.5 PERCENT AS OPPOSED TO 7.65 PERCENT CURRENTLY IN FORCE FOR VOUCHERS. IN ADDITION, WE URGE THAT THE SENATE IN ITS BILL PROVIDE THAT PHA'S WILL BE ALLOWED TO ASSIST IN THE ESTABLISHMENT OF PROGRAM GUIDELINES, THUS ELIMINATING SOME UNNECESSARY PAPERWORK AND EFFECTUATE A MORE TIMELY IMPLEMENTATION.

HUD REDUCED THE SECTION 8 ADMINISTRATIVE FEE FOR CERTIFICATES ON JULY 1, 1985 FROM 8.5 PERCENT TO 7.65 PERCENT. THAT REDUCTION IN AND OF IT SELF RESULTED IN ECONOMIC STRESS ON PUBLIC HOUSING AUTHORITIES (AGAIN, INCLUDING STATE HOUSING FINANCE AGENCIES) ADMINISTERING PROGRAMS STATEWIDE. BUT THE REDUCTION TO 7.65 PERCENT IS ONLY PART OF THE REVENUE PROBLEM FOR ADMINISTERING AGENCIES. THAT REDUCTION MUST BE VIEWED IN LIGHT OF THREE OTHER FACTORS: THE INCREASE IN VOUCHERS AND THE CORRESPONDING DECREASE IN CERTIFICATES, THE DECREASE IN FAIR MARKET RENTS (FMR) AND CONTINUOUS REVISIONS TO PROGRAM RULES AND REGULATIONS MAKING THE PROGRAM MORE COMPLEX AND DIFFICULT TO ADMINISTRATE. WHEN THESE THREE FACTORS ARE CONSIDERED, PUBLIC HOUSING AGENCIES MUST HAVE THE 8.5 PERCENT FEE FOR CERTIFICATES TO PRODUCE SUFFICIENT REVENUES TO EFFECTIVELY OPERATE AND MANAGE THE PROGRAMS.

THE IMPACT OF THE INCREASING USE OF VOUCHERS AND THE LOWERING OF FMR'S RESULTS IN SIGNIFICANT REVENUE LOSSES TO THE PHA'S. AS STATED EARLIER, PHA'S CURRENTLY RECEIVE ONLY A 6.5 PERCENT ADMINISTRATIVE FEE PER VOUCHERS. HUD IS PHASING IN VOUCHERS AS CONTRACTS FOR CERTIFICATES LAPSE. WHILE VOUCHERS ARE INTENDED

Senator **Cranston**. Thank you very much for your very constructive testimony and thanks for responding to the red light.

Our next witness is Barry Zigas, President, National Low Income Housing Coalition, Washington, DC. We welcome you.

## STATEMENT OF BARRY ZIGAS, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, DC

Mr. **Zigas**. Thank you very much, Senator, and my name is Barry Zigas and I'm president of the National Low Income Housing Coalition, which is a national nonprofit, nonpartisan membership organization representing tenants, nonprofit developers, and other public and private entities involved in housing.

I want to take this opportunity to congratulate you, sir, on assuming the chairmanship of this subcommittee. We are looking forward to an exciting 100th Congress. Let me also take the opportunity to congratulate Senator Graham for joining the committee and being with us here. We're looking forward to it.

My written statement covers a lot of territory that you asked us to cover in your request and I would just like to submit that for the record and focus instead on three particular areas that are also covered in my statement.

### CDBG PROGRAM CHANGES

The first of those has to do with the Community Development Block Grant Program which we fully support in its authorization. We hope this committee in its bill will move forward on a multiyear authorization. But we also hope that before you do so that you will take some time to consider some of the issues that my constituents throughout the country who have worked with this program and fought very hard to preserve it have brought to us in terms of the need to look at some of the ways in which the CDBG Program is now administered, some of the requirements which were removed in 1981 for citizen participation, for Federal application, and review, and consider reinstating these provisions as well as adding new provisions along the lines of those contained in Congressman Mitchell's bill from last year, H.R. 4679.

I have included with my statement a very detailed summary of the changes we are proposing. They involve ensuring that the CDBG Program, when it is extended, does its best to directly serve low-income neighborhoods and communities to reduce displacement and to provide economic development financing principally to people of lower income. All of these things are doable. They would do no damage to the program. In fact, we believe they would substantially enhance it as a program that would remain fully funded in the light of continuing efforts to reduce the Federal budget.

So I recommend to you that in considering your new version of S. 2507 we have an opportunity to review these changes with you and discuss them in terms of adding them to the authorization.

The second issue I think that a lot of the witnesses are bringing up to you today that I want to especially emphasize has to do with the potential displacement threat from the existing stock of low income housing.

We have submitted information about the size of this problem but let me just review it very briefly.

As of April 1986, over 6,000 units under the section 221(d)(3) program were eligible to prepay their mortgages. By April of this year another 3,100 will become so eligible. This is almost 10,000 units of currently affordable low-income housing which is in jeopardy of being lost to the existing stock.

An even more frightening problem involves section 8 contracts, principally in new construction and substantial rehabilitation projects, where over 76,000 units in this year alone are going to have their 5-year contracts expire and there is always the possibility that owners will decide not to renew those contracts and we could have this spectre of over 70,000 households being put out on the streets because of an unwillingness by the private sector to continue to participate in this program.

We have in the past testified about the magnitude of this problem and we have advocated a moratorium on any sales or nonrenewals of section 8's during the next year while we believe a national housing emergency exists. This committee has heard testimony already on the Emergency Homeless Act about how much need there is for additional housing and we are very concerned that without acting the Congress could watch thousands and thousands of units they have already put into low-income stock lost to the inventory while, at the same time, trying to facilitate the homeless with new programs.

We have included in our testimony a chart that shows a comparison of all the units being offered in 1987 to all those that are at risk in 1987 and needless to say, there's a very, very big number on the bottom of the chart for loss and a very small number for addition.

I would urge you in looking at S. 2507, as well as in the homeless legislation, to consider looking at a moratorium and a halt as was done last year with the Farmers Home 515 Program, because of a similar emergency, and to take a very hard look in the next year at what can be done to preserve the existing stock of Government-assisted housing.

We have looked at it and proposed a number of issues, including tax law changes to encourage sales to tenants and nonprofits, Government assistance combined with the right of first refusal to tenants and others who are in the properties, and the establishment of a special trust fund to finance the continuing payment of obligations that are owed to people and to owners in Government-assisted housing to assure that they do not become homeless through Government-assisted displacement.

Finally, we have also discussed with many members of the House and Senate a proposal we first broached in 1984, for what we call a community-based housing supply program. This is a program that we proposed to be considered in addition to the current housing assistance programs to facilitate production.

It would be designed principally to provide housing assistance through nonprofit community-based organizations. My testimony contains a thorough summary of this. We are working with members of the Senate and hope that we will have a chance to have this considered as part of the reauthorization.

TO BE MORE COST-EFFICIENT TO ADMINISTER, IT IS THE EXPERIENCE OF HFA'S THAT THEY CANNOT BE ADMINISTERED AT THE 6.5 PERCENT LEVEL. THIS MEANS THAT A HFA OPERATING BOTH A VOUCHER AND A CERTIFICATE PROGRAM MUST USE ADMINISTRATIVE FEES EARNED ON THE CERTIFICATE PROGRAM TO SUBSIDIZE THE VOUCHER PROGRAM. WITH THE PHASE-OUT OF CERTIFICATES, HUD IS EFFECTIVELY REDUCING INCOME TO PHA'S WHILE SIMULTANEOUSLY INCREASING COSTS TO HFA'S BY PHASING IN VOUCHERS. HFA'S REQUIRE AN 8.5 PERCENT ADMINISTRATIVE FEE ON CERTIFICATES TO OFFSET THIS REVENUE LOSS. CSHA ALSO SUPPORTS AN INCREASE IN THE VOUCHER ADMINISTRATIVE FEE TO 8.5 PERCENT SO THAT THE VOUCHER PROGRAM CAN "PAY ITS OWN WAY."

THE ADJUSTMENTS IN FAIR MARKET RENTS THAT MANY STATE AGENCIES HAVE EXPERIENCED OVER THE PAST YEAR ALSO ADVERSELY IMPACTS UPON THE REVENUES REQUIRED TO RUN THE PROGRAM. FOR STATE HOUSING FINANCE AGENCIES WHICH OFTEN OPERATE THE SECTION 8 PROGRAM STATEWIDE AND IN THE MORE RURAL, POORER AREAS OF A STATE, THE IMPACT IS MOST SIGNIFICANT. IN THESE AREAS, FAIR MARKET RENTS HAVE GENERALLY DECREASED. SINCE THE ADMINISTRATIVE FEE IS A PERCENT OF THE FMR, A DECREASE IN THE FMR RESULTS IN A DECREASED ADMINISTRATIVE FEE TO THE HFA. THIS IS PARTICULARLY ONEROUS BECAUSE IT IS THESE VERY AREAS, THE RURAL POOR AREAS, THAT ARE THE MOST EXPENSIVE HFA'S TO SERVE. TRAVEL AND TRANSPORTATION COSTS ARE HIGHER AS ARE PERSONNEL COSTS BECAUSE IT TAKES MORE PEOPLE TO SERVE FEWER CERTIFICATE OR VOUCHER HOLDERS AND BECAUSE OF THE GREATER GEOGRAPHICAL TERRITORY THAT MUST BE COVERED. THERE ARE NO COST-EFFICIENT ALTERNATIVES FOR THOSE AREAS. IF STATE HOUSING FINANCE AGENCIES COULD NOT SERVE THE AREAS, THOSE AREAS WOULD GO UNSERVED. FOR THIS REASON, HFA'S REQUIRE AN 8.5 PERCENT ADMINISTRATIVE FEE ON CERTIFICATES AND VOUCHERS TO OFFSET THESE PROGRAM EXPENSES.

FINALLY, PROGRAM EXPENSES HAVE BEEN DRIVEN UP FOR OTHER REASONS. OPERATING COSTS HAVE RISEN ACROSS THE BOARD FROM AUTOMOBILES TO COMPUTER SERVICES. FINALLY, HFA'S ARE NOW REQUIRED TO UNDERGO AN AUDIT ON A YEARLY BASIS AS OPPOSED TO EVERY OTHER YEAR. THE COST OF SUCH AUDIT IN CASH OUTLAYS AND STAFF TIME IS SIGNIFICANT. IT CAN ONLY BE EXPECTED THAT ADMINISTRATIVE COSTS WILL CONTINUE TO ESCALATE. WITHOUT AN 8.5 PERCENT ADMINISTRATIVE FEE OR WITH ANY FURTHER REDUCTION OF ADMINISTRATIVE FEES, HFA'S MAY BE UNABLE TO OPERATE THE SECTION 8 EXISTING PROGRAM. ULTIMATELY, IT IS THE POOR AND THE POORLY HOUSED WHO WILL SUFFER THE GREATEST FROM ANY FURTHER REDUCTION.

## FAIR MARKET RENTS

THE SETTING OF FAIR MARKET RENT (FMR) LEVELS IN THE PAST FEW YEARS HAS CAUSED GRAVE PROBLEMS IN MANY STATES. THE FIRST IS HUD'S UNWILLINGNESS AND INABILITY TO FAIRLY REFLECT MARKET RENTAL CONDITIONS HAS SEVERELY IMPACTED THE SECTION 8 EXISTING HOUSING PROGRAM. HUD CHANGED TO AN ELABORATE AND EXPENSIVE METHODOLOGY TO DETERMINE FMR'S, RESULTING IN THE REDUCTION OF FMR'S IN AREAS WHERE CLEARLY THIS SHOULD NOT BE THE CASE BASED ON LOCAL MARKET CONDITIONS.

FOR INSTANCE, FAIR MARKET RENTS PUBLISHED IN 1986 WERE DRASTICALLY REDUCED. FOR EXAMPLE, IN MICHIGAN ABOUT 50 PERCENT OF THE RENTS PUBLISHED BY HUD DECREASED OR REMAINED AT 1985 LEVELS. IN TWO COUNTIES, MACKINAC AND CHIPPEWA, THE TWO BEDROOM RENT DECREASED BY $49. THIS DECREASE ALONG WITH UTILITY ALLOWANCE INCREASES RESULTED IN A $71 CONTRACT RENT CHANGE. THIS MEANS THE HOUSEHOLD MUST FIND A TWO BEDROOM UNIT THAT RENTS FOR $230; THIS $71 DECREASE WOULD SUBSTANTIALLY IMPACT HOUSING QUALITY AND TENANT CHOICE.

SECONDLY, BY PROGRAM DESIGN HUD MUST REVIEW AND PUBLISH FAIR MARKET RENTS ON AN ANNUAL BASIS. THIS PRACTICE HAS NOT ALWAYS BEEN ADHERED TO. FOR INSTANCE, IN 1985 FMR'S WERE NOT PUBLISHED IN OCTOBER, THEY WERE WITHHELD UNTIL APRIL OF 1986 WHEN HALF OF THE SCHEDULED RENTS WERE PUBLISHED. THE REMAINING RENTS WERE PUBLISHED IN AUGUST OF 1986. ANNUAL ADJUSTMENT FACTORS ARE ALSO DELAYED UNNECESSARILY.

THIRDLY, AS FMR'S DECREASE FEWER OPERATING MONIES ARE GENERATED TO OFFSET HFA COSTS.

IN ORDER TO ALLEVIATE THESE PROBLEMS CONGRESS SHOULD INSTRUCT HUD TO CONDUCT ACCURATE AND CONCISE MARKET STUDIES ANNUALLY TO DETERMINE FAIR MARKET RENTS AND INSTRUCT IT THAT IF RENTS SHOULD DECREASE IN A PARTICULAR AREA FOR A SPECIFIC UNIT SIZE AND/OR TYPE, NOT TO REDUCE THE FMR BUT HOLD HARMLESS THE CURRENT FMR.

IN ADDITION, HUD SHOULD BE REQUIRED TO PUBLISH RENTS ON THE SAME DATE ANNUALLY AND A REALISTIC COMMENT PERIOD SHOULD BE ESTABLISHED WITHIN WHICH TO CHALLENGE PROPOSED RENTAL CHANGES.

## COMPARABILITY

THE OREGON HOUSING DIVISION (OHO) HAS NOT GIVEN A SINGLE SECTION 8 PROJECT IN ITS PORTFOLIO A RENT ADJUSTMENT SINCE FEBRUARY 6, 1986.

THE HUD AREA OFFICE HAS IMPOSED UPON THE HOUSING DIVISION AND THE HOUSING DIVISION UNWITTINGLY AGREED TO A COMPUTATION METHODOLOGY FOR ANNUAL RENT ADJUSTMENTS WHICH, IF APPLIED, WOULD RESULT IN RENT ROLLBACKS OF THE VAST MAJORITY OF THE PROJECTS IN THE HOUSING DIVISION'S PORTFOLIO. THE HUD AREA OFFICE HAD PREVIOUSLY THREATENED THE HOUSING DIVISION WITH A CUTOFF OF ANNUAL CONTRIBUTIONS CONTRACT ADMINISTRATIVE FUNDS IF THE HOUSING DIVISION DID NOT ADOPT THAT COMPUTATIONAL METHODOLOGY.

OHO CALCULATED ITS 122 SECTION 8 PROJECT'S ANNUAL CONTRACT RENT ADJUSTMENTS FOR 1986 THROUGH FEBRUARY 1987 USING THE HUD APPROVED PROCEDURE. OF THE 122 PROJECTS REVIEWED, 110 PROJECTS REQUIRED A COMPARABILITY REVIEW. OF THE 110 PROJECTS, SEVEN (7) WOULD NOT BE ABLE TO MEET OPERATING EXPENSES,WITH THE PROPOSED RENTS. TWELVE (12) MORE WOULD NOT REALIZE AT LEAST A 6 PERCENT (FOR ELDERLY PROJECTS) OR 10 PERCENT (FOR FAMILY PROJECTS) RETURN

ON EQUITY WITH THE PROPOSED RENTS. TWO (2) PROJECTS' PROPOSED RENTS WOULD BE EQUAL TO THE INITIAL 1980 CONTRACT RENT.

THE OREGON ATTORNEY GENERAL HAS ADVISED THE AGENCY THAT RENT ROLLBACKS COULD NOT BE LEGALLY JUSTIFIED UNDER ANY CIRCUMSTANCES OTHER THAN THE PUBLICATION IN THE FEDERAL REGISTER BY HOUSING AND URBAN DEVELOPMENT OF A NEGATIVE AUTOMATIC ANNUAL ADJUSTMENT FACTOR NUMBER. THAT CONCLUSION WAS BASED UPON AN ANALYSIS OF THE HAP CONTRACTS BETWEEN HOUSING DIVISION AND A HOUSING SPONSOR, THE ANNUAL CONTRIBUTIONS CONTRACT BETWEEN HOUSING DIVISION AND HUD, THE APPLICABLE HOUSING ACT AND HUD'S REGULATIONS RELATIVE TO THE SECTION 8 PROGRAM.

WHILE IT APPEARS TO BE A HUD OBJECTIVE TO ACCOMPLISH COMPARABILITY AND ACHIEVE ROLLBACKS ON A NATIONAL SCALE, THE AREA OFFICES RESPONSIBLE FOR ACCOMPLISHING THAT OBJECTIVE ARE NOT ACTING UNIFORMLY, CREATING GREAT CONFUSION AND CONCERN AMONGST CSHA MEMBERS AS THEY ATTEMPT TO DEAL WITH THIS ISSUE.

LITIGATION HAS BEEN INITIATED IN THE U.S. COURT OF CLAIMS IN WASHINGTON, DC, AGAINST HUD BY 179 HUD-FINANCED PROJECT SPONSORS. THE PLAINTIFFS CLAIM THAT HUD'S ACTIVITIES RELATIVE TO THE RENT ROLLBACKS CONTRAVENE THE FEDERAL ADMINISTRATIVE PROCEDURE ACT, CONTRACTS BETWEEN THE PLAINTIFFS AND HUD, AND ARE CONTRARY TO THE APPLICABLE HOUSING ACT AS WELL AS HUD REGULATIONS WHICH IMPLEMENT THAT ACT.

WE ASK THIS COMMITTEE TO DIRECT HUD TO REFRAIN FROM FURTHER ACTIONS ON THE ISSUE OF COMPARABILITY OF RENTS IN SECTION 8 PROJECTS UNTIL THE ISSUE CAN BE STUDIED IN DEPTH. THE QUESTION IS REALLY NOT WHETHER PROJECT RENTS ARE COMPARABLE TO OTHER RENTS IN THE AREA BUT WHETHER THE RENTS ARE SUFFICIENT TO MEET THE REASONABLE OPERATING COSTS OF THE PROJECT. IF THEY DO NOT, OWNERS WILL NOT BE WILLING TO MAINTAIN THESE UNITS FOR LOW INCOME TENANTS.

HOUSING FINANCE AGENCIES WERE STRINGENT IN THEIR UNDERWRITING CRITERIA IN DEVELOPING THEIR PROJECTS AND MOST REQUIRED A LIMITED RETURN ON EQUITY EVEN BEFORE HUD MANDATED IT. AGENCIES CLOSELY MONITOR THE OPERATING COSTS OF THE PROJECTS THEY FINANCED AND HAVE THE ADVANTAGE OF COMPARING THESE COSTS WITH OTHERS STATEWIDE. CSHA AND ITS MEMBERS HAVE BEGUN A DETAILED STUDY OF THE COMPARABILITY ISSUE. WE ASK THAT THIS COMMITTEE REQUIRE HUD TO WORK WITH CSHA, ITS MEMBERS AND OTHER INTERESTED PARTIES TO ESTABLISH A FAIR AND WORKABLE PROCEDURE TO ASSURE BOTH THE FINANCIAL VIABILITY AND THE LOW INCOME CHARACTER OF THESE DEVELOPMENTS.

## CONGREGATE HOUSING SERVICE PROGRAMS

THE CONGREGATE HOUSING SERVICES PROGRAM (CHSP) WAS AUTHORIZED AND FUNDED UNDER TITLE IV OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1978 (92 STAT 2080, 42 USC 5301). THE CHSP IS BASED ON THE PREMISE THAT THE USE OF APPROPRIATE COMMUNITY-BASED SUPPORTIVE SERVICES, INCLUDING MEALS AND ASSIST-

ANCE WITH ACTIVITIES OF DAILY LIVING, CAN HELP FRAIL ELDERLY AND HANDICAPPED PERSONS TO CONTINUE TO LIVE INDEPENDENTLY, THEREBY AVOIDING PREMATURE INSTITUTIONALIZATION. AS LEGISLATED BY CONGRESS, THIS PROGRAM REPRESENTED THE FIRST TIME HUD LINKED A SUPPORTIVE SERVICE PACKAGE WITH HUD-SUPPORTED HOUSING. THIS PROGRAM, IN ITS "PILOT" OR "DEMONSTRATION" FORM, HAS FUNDED SERVICES AT SOME 63 PUBLIC HOUSING AUTHORITY AND "SECTION 202" SPONSORED HOUSING PROJECTS (STATE HOUSING FINANCE AGENCY FINANCED PROJECTS ARE NOT ALLOWED TO PARTICIPATE). H.R. 4 PROPOSES CONTINUED FUNDING OF PROJECTS PRESENTLY UNDER CONTRACT, AS S. 2507 DID LAST YEAR. H.R. 4 WOULD ALLOW AN APPROPRIATION OF $10 MILLION.

CSHA SUPPORTS THE CONCEPT OF PROVISION OF SERVICES IN PROJECTS FOR THE ELDERLY AND HANDICAPPED AND, IN FACT, IS JUST COMPLETING, IN COLLABORATION WITH THE NATIONAL ASSOCIATION OF STATE UNITS ON AGING, AN 18-MONTH STUDY OF ELDERLY HOUSING AND SUPPORT SERVICES INITIATIVES OF STATE HOUSING FINANCE AGENCIES AND STATE UNITS ON AGING. A MAJOR PRODUCT OF THIS STUDY WILL BE A SUPPORT SERVICES MODEL BASED ON SUCCESSFUL PROGRAMS IN NEW JERSEY, MARYLAND AND MASSACHUSETTS THAT COULD BE MADE REPLICABLE IN LOWER INCOME PROJECTS THROUGHOUT THE COUNTRY. THIS MODEL WILL PRESENT THE MOST COST-EFFECTIVE SYSTEM OF ACCESSING AND PROVIDING SERVICES BUT IT WILL BY NECESSITY REQUIRE SOME LEVEL OF FUNDING FROM STATE AND FEDERAL GOVERNMENTS.

CSHA SUPPORTS FUNDING THROUGH FY 1988 FOR CONGREGATE HOUSING SERVICES FOR PROJECTS ALREADY UNDER CONTRACT AND WE REQUEST THAT THIS DEMONSTRATION ALLOW HFA-FINANCED PROJECTS TO COMPETE FOR ANY REMAINING FUNDS.

WE FURTHER PROPOSE TO THIS SUBCOMMITTEE THAT ITS STAFF WORK THIS YEAR, WITH A TASK GROUP THAT WOULD INCLUDE CSHA AND NASUA, TO CONVERT THIS DEMONSTRATION TO A NATIONAL PROGRAM, FUNDED AT THE FEDERAL LEVEL WITH APPROPRIATE INCENTIVES FOR STATE FINANCIAL PARTICIPATION. SUCH A PROGRAM WOULD BE AVAILABLE TO ALL HUD-ASSISTED PROJECTS FOR THE ELDERLY AND HANDICAPPED, INCLUDING HFA FINANCED PROJECTS. WE BELIEVE THAT A FEDERAL CONGREGATE HOUSING SERVICES PROGRAM, WITH A STANDARD MODEL, ADMINISTERED AT THE STATE LEVEL BY THE TWO AGENCIES MOST EXPERIENCED AND KNOWLEDGEABLE IN THE FIELDS OF HOUSING AND SERVICES, WILL PRODUCE RESULTS THAT COULD NOT BE ACHIEVED BY A FRAGMENTED PROGRAM ADMINISTERED DIRECTLY BY HUD. WITH THE GROUNDWORK ALREADY DONE BY CSHA AND NASUA, A PROGRAM COULD BE DESIGNED AND READY FOR IMPLEMENTATION IN FY '89.

AFTER IMPLEMENTATION OF A FULL FLEDGED CONGREGATE HOUSING SERVICES PROGRAM, ALL PROJECTS SHOULD COME UNDER ITS AUSPICES.

## HOMELESSNESS

EVERYONE IS AWARE THAT HOMELESSNESS IN THE UNITED STATES HAS EVOLVED INTO A CRISIS SITUATION. ESTIMATES VARY FROM 350,000 TO OVER 3 MILLION PEOPLE WHO DO NOT HAVE ANY PERMANENT ADDRESS OR MEANS OF SHELTER. ONLY THROUGH THE DEVELOPMENT OF A FEDERAL

HOUSING POLICY CAN A COMPREHENSIVE STRATEGY BE DEVISED TO ALLEVIATE AND EVENTUALLY ELIMINATE THIS SERIOUS PROBLEM.

WITH AN INCREASE IN FEDERAL ASSISTANCE, THIS GOAL CAN BE ACHIEVED. FEDERAL FUNDS COULD PROVIDE THE MEANS FOR:

- CONVERSION OF VACANT AND SURPLUS FEDERAL, STATE AND LOCAL BUILDINGS INTO SHELTERS FOR THE HOMELESS;
- THE DEVELOPMENT OF SUPPORT SERVICES TO PROVIDE COUNSELING AND JOB TRAINING; AND
- OPERATING EXPENSES.

HOMELESSNESS CAN BE REDUCED, IF NOT ERADICATED, WHEN FEDERAL, STATE AND LOCAL GOVERNMENTS UNIFY THEIR FUNDING SOURCES AND DEVELOP CREATIVE STRATEGIES.

AS QUASI-GOVERNMENTAL ENTITIES, HOUSING FINANCE AGENCIES ARE IN A UNIQUE POSITION TO HELP IDENTIFY AND SUPPORT HOUSING INITIATIVES FOR THE HOMELESS IN THEIR RESPECTIVE STATES. HFA'S, A LOCUS OF ACTIVITY AND COMMUNICATION IN THE HOUSING COMMUNITY, SUSTAIN RELATIONSHIPS WITH LOCAL GOVERNMENTS, BUILDERS, NON-PROFIT ORGANIZATIONS, AND OTHERS CONCERNED WITH THE PLIGHT OF THE HOMELESS.

SEVERAL HFA'S HAVE ALREADY PROVEN THEIR FINANCIAL AND TECHNICAL EXPERTISE IN PROVIDING HOUSING FOR THE HOMELESS:

THE DIRECTOR OF THE MAINE STATE HOUSING AUTHORITY CHAIRED HER GOVERNOR'S TASK FORCE STUDYING THE PLIGHT OF THE HOMELESS. THE COMPLETED STUDY MADE RECOMMENDATIONS FOR IMPROVED HOUSING, SUPPORT SERVICES, AND INCOME SUPPORT FOR THE HOMELESS. THE MAINE STATE HOUSING AUTHORITY HAS RESPONDED TO THE CHALLENGE OF HOMELESSNESS THROUGH ITS HOMELESS SHELTER FINANCING PROGRAM, WHICH UTILIZES TRUST FUND REVENUE TO PROVIDE 1 PERCENT LOANS FOR THE DEVELOPMENT OF, OR REPAIRS, TO SHELTERS. SINCE 1983, 7 SHELTERS HAVE BEEN FINANCED.

IN GEORGIA, THE GEORGIA RESIDENTIAL FINANCE AUTHORITY HAS USED RESERVE FUNDS TO FUND A HOMELESS REVOLVING LOAN FUND. THE FUND WILL LEVERAGE RESOURCES FROM OTHER PUBLIC AND PRIVATE ENTITIES ON A PROJECT-BY-PROJECT BASIS, CREATING A MODEL OF PUBLIC-PRIVATE COOPERATION IN ADDRESSING THE NEEDS OF THE HOMELESS.

RECOGNIZING THAT THE HOUSING NEEDS OF THE HOMELESS CAN BE VARIED AND COMPLEX, THE STATE OF MARYLAND APPROPRIATED $2 MILLION TO THE COMMUNITY DEVELOPMENT ADMINISTRATION TO PROVIDE LOW INTEREST, NO-INTEREST, AND DEFERRED LOANS FOR TEMPORARY SHELTERS, EMERGENCY HOUSING FACILITIES, AND GROUP HOMES. THE FUNDS ARE LOANED TO COMMUNITY BASED NON PROFIT ORGANIZATIONS.

IN ADDITION TO THE ABOVE, NEW HAMPSHIRE, COLORADO, RHODE ISLAND, AND SEVERAL OTHER STATES HAVE DEVELOPED PROGRAMS THAT FUND URGENTLY NEEDED SHELTER FOR THE HOMELESS.

AT THIS TIME, WHEN THE NEED TO PROVIDE SHELTER FOR THE HOMELESS IS SO GREAT, AVAILABLE RESOURCES MUST BE USED CREATIVELY AND CAREFULLY. THE HFA'S OFFER ADMINISTRATIVE AND TECHNICAL EXPERTISE TO ALLOCATE FEDERAL FUNDS EFFECTIVELY, AND TO PACKAGE ADDITIONAL SUBSIDIES TO CREATE A COST-EFFECTIVE PROGRAM IN FINALIZING THE EMERGENCY FOOD AND SHELTER PROGRAM IN S. 258 AND THE COMPANION PROGRAM IN H.R. 4., WE URGE CONGRESS TO IDENTIFY STATE HOUSING FINANCE AGENCIES AS VEHICLES TO DELIVER THE PROGRAM.

## CONCLUSION

THE LENGTH OF THIS TESTIMONY BEARS WITNESS TO THE FACT THAT THE PROPOSED HOUSING AUTHORIZATION BILL MUST BE THOROUGHLY CONSIDERED AND DEBATED. THE RECENT SERIES OF DIRECT SPENDING CUTBACKS COMBINED WITH THE LOSS OF TAX CODE INCENTIVES AND THE INCREASE IN HOUSING NEED, PLACES A SEVERE BURDEN ON THE FEW REMAINING FEDERAL HOUSING PROGRAMS. ALL OF THESE PROGRAMS MUST BE RETAINED AT NO LESS THAN CURRENT LEVELS. THEIR AVAILABILITY TO STATE HOUSING FINANCE AGENCIES MUST BE INCREASED AND APPROPRIATE EFFICIENT ADMINISTRATION SYSTEMS MUST BE IMPLEMENTED OR MAINTAINED.

AS THE ROLES OF VARIOUS LEVELS OF GOVERNMENT IN HOUSING BECOME MORE CLEARLY DEFINED, THE COUNCIL OF STATE HOUSING AGENCIES WELCOMES THE OPPORTUNITY TO WORK WITH THE FEDERAL GOVERNMENT, IN A SPIRIT OF POST-TAX REFORM COOPERATION, TO ENSURE THAT AMERICA'S NEEDY ARE ADEQUATELY AND AFFORDABLY HOUSED

Finally, I know you asked some other witnesses what they liked about the administration's budget—I've tried and tried to come up with something good to say. I think the Fair Housing Initiatives Program that the administration has proposed again is well worth your consideration. I think it's an important program that could be of great help in fighting housing discrimination. I urge you to consult with the fair housing groups who have worked on that about some of the changes they desire to see made in that.

Thank you very much for the opportunity to testify. I'd be happy to answer any questions.

[The complete prepared statement of Barry Zigas follows:]

# National
# Low Income Housing Coalition

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Hon. Edward W. Brooke, *Honorary Chairperson*
Barry Zigas, *President*

PREPARED STATEMENT OF

BARRY ZIGAS, PRESIDENT

NATIONAL LOW INCOME HOUSING COALITION

ON THE HOUSING & COMMUNITY DEVELOPMENT

AUTHORIZATION OF 1987

SUBMITTED TO

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

FEBRUARY 17, 1987

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Mr. Chairman, distinguished members of the Subcommittee, thank you for the opportunity to appear before you today to discuss pending legislation on low income housing and community development programs. My name is Barry Zigas. I am President of the National Low Income Housing Coalition in Washington, D.C. The Coalition is a national, nonpartisan nonprofit organization whose members include low income tenants, organizers, advocates, and public and private producers and managers of low income housing.

I want to take this opportunity to congratulate you, Mr. Chairman, on your assumption of this important assignment in the 100th Congress. I would also like to congratulate the new Ranking Minority Member. The NLIHC has worked closely with this Subcommittee since 1975. We have worked with both of you over the years to help ensure continued federal assistance to meet the housing needs of low income people. I look forward to working with you both during this Congress to continue our forward progress in these matters.

My testimony today will cover the following general areas:

1. The extent of the housing crisis facing low income people and the need for greatly expanded federal assistance to help solve it.

2. Brief comments on the provisions of S. 2507, as passed by this Committee last year.

3. Suggestions for additional initiatives which are necessary at this time, particularly in the following areas: Community Development Block Grants; preservation of existing federally assisted housing resources; and establishment of a new program of assistance to nonprofit providers of affordable housing for low income households to help this sector increase the supply of affordable low income housing, and to take maximum advantage of the new low income housing tax credits enacted in the Tax Reform Act of 1986.

## The Low Income Housing Crisis

Low income people face an unprecedented housing crisis. High rents, overcrowding, homelessness and displacement plague low income households throughout our cities and towns. Severe cutbacks in federal housing assistance funds have spelled disaster for millions of renters and owners. State and local governments are overwhelmed by the magnitude of the problem.

The 1983 Annual Housing Survey conducted by the Census Bureau for HUD found that 8.4 million renter households earned less than $7,000, or a little more than 50 percent of the renter median income of $12,900. A total of 91 percent of these renters paid more than 25 percent of their income for rent, and nearly 80 percent paid more than 35 percent of their income for rent. Over half of these households paid more than 60 percent of their income for rent.

Among renters with incomes below $3,000 per year, the shortage of affordable housing is even more acute. A total of 86 percent of these 2.2 million households paid more than 60 percent of their income for rent in 1983.

These are the very lowest income tenants in America. Yet they are paying the highest rent burdens of any income group, either among owners or renters. And since 1970, their plight has worsened.

Independent analysis of the 1980 Census figures on housing by the Low Income Housing Information Service shows that by 1980, there were nearly twice as many low income renter households in need of housing priced at 25 percent of their income or less than there were units available at that price level to serve them. Only 10 years earlier, the Census figures show that while a gap existed, it was substantially less acute than it is today.

America has experienced an unprecedented loss of affordable housing stock during the decade of the 1970's. In 1970, there were almost 15 million housing units affordable to a household earning $5,000 or less a year, by 1980 this number had dwindled to less than 3 million. The number of renter households with incomes of $5,000 or less also shrank during this period, but only to about 6 million, leaving half as many units as families.

The Low Income Housing Information Service estimates that, on average, 500,000 low income housing units were lost every year during the 1970's, even after taking into account additions to the stock through new construction and rehabilitation.

The General Accounting Office of the U.S. Congress recently reported that while only 54 percent of all renter households with incomes below 80 percent of the median paid more than 30 percent of their income for rent in 1974, 64 percent did so in 1983. The increase among renters with incomes below 50 percent of median was even more startling.

In the last five years, this loss of affordable housing in the private sector has been coupled with a nearly 60 percent reduction in federal housing assistance funds. Moreover, almost the entire focus of federal housing assistance is now placed on subsidizing rents in existing housing, and limiting such assistance to rental units.

Finally, the last few years have witnessed the growth of another threat to the already meager resources available to low income people. Through a combination of tax laws, administrative decisions, and local economics, many housing projects originally subsidized by the federal government for occupancy by low income tenants are threatened with sales and conversions which will remove them from the inventory of affordable housing. These transfers will almost certainly lead to widespread displacement of low income tenants.

Mr. Chairman, at this time I would like to place in the hearing record a copy of the "Rental Housing Crisis Index" prepared by the Low Income Housing Information Service, a copy of which is attached to my testimony.

### S. 2507

Passage of new housing and community development authorizing legislation this year is an absolute must for the Congress. I congratulate the Chairman and the other members of this Subcommittee for moving quickly to start this process.

You have specifically requested my comments on S. 2507, which was passed by this Committee last year but never acted on in the full Senate. My comments are as follows.

### Sec. 148: Neighborhood Development Demonstration Program

We support this program, and urge the Committee to extend and expand its funding, to no less than $5 million in FY88.

### Sec. 201: Housing assistance authorizations

In light of the needs described earlier in my testimony, I urge this Subcommittee to recommend funding levels which will provide assistance for no fewer than 250,000 incremental housing units in FY88. This level would still be nearly half of what Congress was asked to approve by President Ford in the FY80 budget; it would only be one-third the total number of housing units to which Congress committed itself in establishing national housing goals in 1968.

These authorizations should include a range of assistance, including new construction and rehabilitation authority for public housing; substantial use of Section 8 Certificates, as well as Section 8 Moderate Rehabilitation; the Section 202 program for the elderly and handicapped; and a new program of assistance to nonprofit development organizations for creating and preserving affordable rental housing resources in our communities.

If this legislation extends authorizations for two years, as has been suggested by the Chairman and staff, then it is critical that this authorization specifically include separate funds for the re-funding of Section 8 contracts in federally insured and subsidized rental housing projects which are now receiving assistance through the so-called "loan management" program administered by HUD. Nearly 12,000 units of HUD subsidized housing is operating under Section 8 contracts which were first issued in 1984 and 1985, using 5-year contracts. This Subcommittee must set aside sufficient funds in a specific, earmarked account which HUD must use to renew these contracts. The alternative is the potential displacement from existing affordable housing of very low income tenants. The only sure outcome of such neglect would be increased homelessness. I will return to the question of preservation of the federally assisted housing stock later.

### Sec. 202: Sec. 8 assistance

The bill would require that all Section 8 contracts operate using 15 year terms. We support this requirement. I also urge the Subcommittee to closely examine provisions contained in H.R. 4, the draft bill under consideration in the House Subcommittee, for additional language which would require HUD to issue separate contracts for each year's allocation of Section 8 assistance.

### Sec. 203: Rental Rehabilitation Grants

We strongly support the inclusion of nonprofit organizations as eligible owners of property receiving assistance through the Rental Rehabilitation Grant program.

## Sec. 204: Preventing Fraud and Abuse

The bill contains substantial new requirements designed to assure that tenants in assisted housing are paying the amounts intended by Congress for their housing. We are concerned about the potential violations of tenants privacy that could arise from these provisions. We are also concerned that tenants could be at risk for substantial penalties or even loss of eligibility because of failure to report occasional income in a timely manner. I know that the Chairman has solicited the views of the National Housing Law Project on this bill, and I would like to associate the Coalition with their extensive comments submitted in regard to this section.

## Sec. 205: Public Housing Resident Management

This section does not reflect the many changes adopted last year in the House during floor debate on this provision, nor does it reflect the provisions contained in H.R. 4. I urge the Committee to drop this section entirely, and replace it with the provisions included in H.R. 4. These provisions provide important and essential protections for workers covered by collective bargaining agreements in public housing, as well as clarifying that resident management organizations must abide by essential laws and regulations regarding tenant rents, eligibility, and due process rights in landlord tenant disputes.

## Sec. 221: Management and Preservation

S. 2507 contains changes suggested by HUD to govern the management and preservation of HUD insured and subsidized housing owned or acquired by HUD.

These provisions are unacceptable, and should not be included in your new bill.

H.R. 4 contains substantially improved language covering these issues, and I urge you to incorporate this version, along with the changes recommended by the National Housing Law Project at the request of Rep. Gonzalez and provided at the Chairman's request to this Subcommittee, in your bill.

## Sec. 223: Tenant Participation

The addition of tenant participation requirements in the Section 202 program where transfers of the property are considered is a very positive change, which we support. However, this language should be improved by removing language which currently restricts the tenant participation requirements to where the "Secretary deems it appropriate". Low income tenants should not have to depend on the Secretary's judgment to determine whether they will have access to information which could affect them directly. This discretionary language should be removed.

## Sec. 224: Nondiscrimination against Certificate Holders

We strongly support this provision, and urge the Committee to extend it not only to HUD-subsidized projects, but also to any project receiving HUD mortgage insurance.

## Additional Initiatives

## Community Development Block Grants

Over the last two years, the NLIHC has been actively participating with grass-roots organizations throughout the country to support the continued authorization and full funding of the Community Development Block Grant program. We have done so because we believe, and experience shows, that this program is one of the most vital means of supporting community-based development for low income communities. We have consistently fought proposals to rescind funding for this program, and fully support its reauthorization.

However, we have also found in working with groups throughout the country that the local administration of the CDBG program can leave much to be desired. In many communities, the congressional expectation that these funds would be used principally to benefit low income people is honored more in the breach than anywhere else. The economic development provisions of the statute, in particular, have been abused in many localities, providing an excuse for local governments to support commercial development in downtown areas without regard to providing job opportunities for low income people, or revitalization of neighborhoods.

Last year the NLIHC joined with others in supporting H.R. 4679, the Community Development Block Grant Improvement Act of 1986, sponsored by Rep. Parren J. Mitchell. This bill would have made certain changes to the CDBG program to prevent displacement of low income communities, enhance the use of economic development spending to provide low income persons with opportunities and economic growth, and specified that all CDBG funds must be used to benefit low income persons in the community.

Since then, the NLIHC has continued to work with a broadly based coalition of national and local organizations concerned with low income community development and preservation. We have refined our initial proposals, as contained in the Mitchell bill, and added some additional provisions developed through a lengthy consultation process throughout the country.

Mr. Chairman, I would like to submit for the hearing record a "White Paper" prepared as a result of this process, along with a comparison of current law and our proposed changes.

With the continuing federal budget crisis caused by massive tax cuts and unreasonable military spending, the pressure to cut federal spending on vital domestic issues like community development is continuing. We fully support the continued funding of CDBG because we believe that it does operate in many communities to provide the only source of support for community-based housing and development strategies. In many other communities, however, these goals are not being realized. In discussions with members of both the House and Senate Budget Committees, we have been told again and again that CDBG is not going to be protected as a "low income benefit" program because the perception is that it does not qualify. This Committee has the opportunity and obligation to correct this problem, and to ensure that all grantees are required to use these scarce funds in programs that directly benefit low income persons, do not contribute to displacement, and provide economic development benefits to low income persons and neighborhoods.

Mr. Chairman, I urge you to consider these changes and incorporate them into your rewrite of S. 2507.

### Community Based Supply Program

In June, 1984, the National Low Income Housing Coalition sponsored a major meeting in Washington, D.C., to help create a "people's housing program." A major result of this meeting was the development of a concept paper outlining what we dubbed a "Community Based Housing Supply Program". The purpose of this program was to provide funds which would fulfill two related goals: the development and preservation of affordable housing for low and very low income persons, and support of such efforts by nonprofit organizations based in their communities.

We have continued to work with nonprofit organizations to refine this proposal. We are working with members of the House and Senate to draft legislation to carry out these objectives. I would like to submit for the hearing record at this time a summary of this program outlining its objectives and purposes. I urge you, Mr. Chairman, to take this opportunity to adopt this innovative program **now**, and provide a new source of funding which these community based nonprofit organizations can use to help alleviate the low income housing crisis.

Action on this program is particularly important this year in light of the Tax Reform Act of 1986. With the strong support of the NLIHC, Congress last year adopted a new low income housing tax credit as part of the tax legislation. This new initiative received the strong support of the Chairman, the Ranking Minority Member, and many other members of this Committee, for which we thank you. Now that the tax credits are law, it is clear that a substantial part of the resources made available through this new effort will be used by nonprofit organizations. In fact, at least 10 percent of all tax credits must be allocated to projects sponsored by nonprofit organizations.

The Community Based Housing Supply Program would provide a major means of ensuring that community-based nonprofits can take full advantage of the tax credit's benefits. It would help support a major element in the low income housing economy which does not compete well within other, established programs such as NoDAG, or UDAG. Nonprofits typically cannot invest the time or staff necessary to compete for funds at the national level against well financed private concerns. They often undertake very small scale projects designed to serve existing neighborhood needs. Although vital, such small scale projects do not offer the same attractive terms that very large projects proposed by private concerns do. This is equally true at local, state and federal levels.

Mr. Chairman, we are committed to this program as a major new initiative. I hope we can count on your support for this effort, and hope you will incorporate its provisions in the Subcommittee's new version of S. 2507.

### Housing Preservation

Mr. Chairman, one of the most pressing issues facing this Committee in the next two years will be the potential loss of hundreds of thousands of subsidized housing units from the current inventory of government assisted housing.

The threat of displacement from privately and publicly owned, government subsidized housing is enormous. The General Accounting Office (GAO) estimated in recent reports to the U.S. Congress that as many as 900,000 units of privately owned and federally subsidized housing could be lost in the next ten years. They further estimated that by the year 2005, a total of as many as 1.7 million units could be lost. **This represents about two-fifths of the total federally assisted housing inventory in 1986.**

What is behind this threat? The government-assisted housing programs which relied on the private sector were tremendous engines for production. But each development carried within it the seeds of a displacement disaster.

In the Section 236 and Section 221(d)(3) stock, this threat is caused by subsidy contracts which permit owners to "prepay" mortgages at the end of 20 years. Payment of the underlying mortgage releases the owner from all regulatory constraints on the property's use. Owners who choose this option may do so in order to sell the property to a new buyer as market rate housing or to continue to own the property for such use. The sale may be for the specific purpose of conversion to condominiums. Other sales may be the prelude to demolition of the property and conversion of the site to some other use, such as commercial development. In all cases, the original tenants now occupying the housing will be displaced. Throughout the country, one of the results of these displacements will be increased homelessness among low income renters.

In the Section 8 program, displacement can be caused by the simple refusal of the project owner to renew the Section 8 contracts with HUD. Originally, Section 8 owners could renew these contracts at five year intervals, for a maximum of 20 years. Owners of projects which received commitments for Section 8 assistance after December 31, 1979, were required to agree to 15- or 20-year contract terms. In both cases, the expiration of these contracts permits owners to convert the assisted units to market rate rentals without any further government involvement.

Among properties which have received Section 8 assistance as part of a strategy to preserve housing produced under the earlier mortgage insurance programs, Section 8 contracts have always been provided with only 5-year contracts. The expiration of such contracts and the owners' refusal to renew them could lead to the same displacement threat.

### How Many Families Could Become Homeless?

Based on information gathered by the General Accounting Office (GAO), thousands of low income families are at risk of becoming homeless because of privately owned housing disappearing from the federally assisted inventory:

- As of April, 1986, **6,664** HUD-assisted units assisted under the Section

221(d)(3) insurance program were eligible for prepayment of their mortgages.

- As of April, 1987, another 3,129 units will become ripe for unrestricted mortgage prepayments.
- In 1987 alone, Section 8 rental subsidy contracts covering 76,419 housing units will expire. Owners of these units have the right to renew their contract for an additional five years, or to cancel their participation in the Section 8 program and rent the units at market rates without government assistance.
- Between 1985 and 1986, Section 8 rental subsidy contracts for 45,875 units expired, and owners were offered the opportunity to either renew or opt out of the program.
- In 1988, an additional 150,488 Section 8 units could be lost to the affordable housing supply if the owners do not elect to renew.

**Altogether, between 1985 and 1988, 272,782 units of housing assisted under the Section 8 program alone will be at risk because of potential contract cancellations by private owners.**

In FY87, the entire HUD budget will provide only 91,500 additional units of low income housing assistance, or only about one-third of the number of units which could be lost through contract cancellations.

### HUD-Owned Properties

HUD itself owns a sizeable portfolio of projects which serve low income persons. Under current law, disposition of these properties is discouraged, but HUD is permitted to sell them off without continuing subsidies under certain circumstances. With the current housing emergency, no further sales of these properties should be permitted until a comprehensive policy can be proposed and adopted to protect the maximum number of low income units now in existence.

As mentioned earlier in my testimony, the provisions governing management and preservation of HUD-owned stock contained in S. 2507 are completely unacceptable from on this issue. The provisions contained in H.R. 4 provide much better protection for the tenants' continuing enjoyment of these government assisted units.

### Public Housing

Of the total 4.1 million housing units now receiving assistance through the various HUD programs, 1.3 million are assisted through the public housing program. This housing is owned and operated by local agencies. Rents are the same as in Section 8 housing--30 percent of the tenant's adjusted gross income.

Public housing too is threatened by federal and local policies of neglect, abandonment, and disposition. Although thousands of families are on public housing authority waiting lists, in city after city HUD is being asked for permission to tear down desperately needed public housing resources. In city after city, units are being abandoned and left vacant, often with the intention of allowing the units to deteriorate to the point where demolition or sale for conversion appear as the only feasible alternative.

In this regard, we continue to oppose efforts to use the existing public housing stock in homeownership demonstrations unless such a program is accompanied by an iron-clad commitment by the Congress to force the Administration to replace each and every unit sold with a comparable new, rehabilitated or acquired rental unit which will continue to serve very low income renters. H.R. 4 contains provisions for a homeownership demonstration which address many of the concerns we have voiced over this effort in the past. It does not, however, require a one-for-one replacement of the ownership units with rental units. For the overwhelming majority of very low income tenants, rental property is an essential and unmet need. We should not be encouraging the conversion of what little publicly owned low rent stock we now have when faced with the current low income housing crisis.

### Where Will Tenants Go If They Are Displaced?

If these displacements take place, the tenants will have few options. The median income of all tenants in public housing and Section 8 units was just over $6,000 per year in 1983, according to the U.S. Census Bureau . This was about one-third of the national median household income in the same year.

These households are among the "privileged few" very low income renter households by dint of their participation in the federal assistance programs. Section 8 and public housing tenants pay no more than 30 percent of their adjusted income. Tenants in privately owned housing subsidized through the National Housing Act programs (Sec. 221(d)(3), Sec. 236) pay rents which are reduced to reflect the owner's lower interest rate, and rents in these properties are regulated by HUD.

In the general rental market, at least half the renter families with incomes at this level pay more than half their income for rent.

We have advocated in the past a moratorium on any sales, transfers or contract cancellations which would lead to any reduction in the number of federally assisted units available to low and very low income tenants at affordable rents. As the Congress grapples with the crisis of homelessness by trying to provided new assistance to those already made homeless, it is senseless to risk losing already affordable stock and creating more homeless very low income people who are already protected through participation in subsidy programs.

Beyond such a short-term step to prevent immediate displacement, Congress should undertake a thorough examination of this problem. Areas that should be considered include changes to the tax law to encourage sales of privately owned properties serving low income people to tenants, or to nonprofit organizations which agree to maintain the properties for affordable low income use; requirements that owners offer such properties to such groups and concomitant federal assistance to assure that such sales can be consummated without causing rent hikes or displacement; establishment of a special excise tax requiring owners who prepay mortgages and convert them to non-low income use, the proceeds from which would be used to assist displaced tenants and help prevent deterioration in units which remain in the low income inventory; and establishment of a special, nationally financed "Housing Preservation Trust Fund" to guarantee the government's continuing ability to carry out the trust it has with low income tenants now receiving assistance and to protect them from displacement and homelessness.

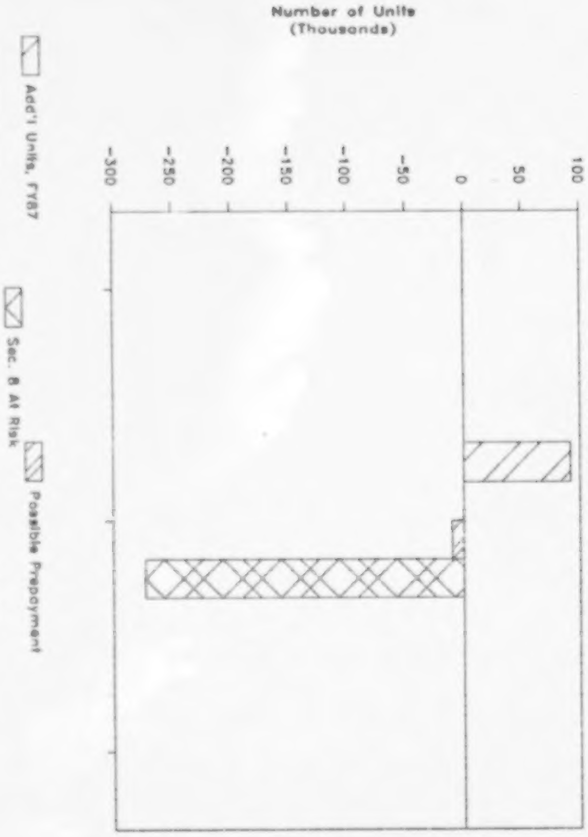
## The President's Budget Request

President Reagan's FY88 budget request for assisted housing and community development activities is a rehash of discredited proposals already rejected in prior years by the Congress. The rescission of $375 million in CDBG funds should be rejected out of hand. The proposal to eliminate any new funding for public housing development and rehabilitation should be rejected. The proposal to rely exclusively on housing vouchers and to eliminate funding for Section 8 Certificates should be rejected. The proposal to "stretch out" spending for the Section 202 program into FY88 without additional funding should be rejected.

Mr. Chairman, thank you for the opportunity to share our views on S. 2507. I applaud your swift action in calling hearings and scheduling a mark-up, and look forward to working with you and your staff to move forward on these important issues in the 100th Congress. I will be happy to answer any questions you may have at your convenience.

COMPARISON OF UNITS TO BE ADDED IN FY87

WITH POTENTIAL DISPLACEMENT THREAT



Source: National Low Income Housing Coalition, using data provided by GAO

**Coalition on Low-Income Community Development**

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**Steering Committee**
ACORN
Center for Community Change
Washington, D.C.
Center for Neighborhood Development
Cleveland, Ohio
Centro Aztlan
Laredo, Texas
Community Development Coalition, Inc.
Philadelphia, Pennsylvania
Community Information Exchange
Washington, D.C.
Community Workshop on Economic Development
Chicago, Illinois
Development Training Institute
Baltimore, Maryland
Enterprise Foundation
Columbia, Maryland
Georgia Housing Coalition
McDonough, Georgia
Housing Assistance Council
Washington, D.C.
Local Initiatives Support Corporation
McAuley Institute
Silver Spring, Maryland
Michigan Housing Coalition
Lansing, Michigan
National Association of Community Action Agencies
Washington, D.C.
National Congress on Community Economic Development
Washington, D.C.
National Coalition for the Homeless
Washington, D.C.
National Council of La Raza
Washington, D.C.
National Low-Income Housing Coalition
Washington, D.C.
National Neighborhood Coalition
Washington, D.C.
National Urban League
New York, N.Y.
Northside Preservation Commission
St. Louis, Missouri
Rural Coalition
Washington, D.C.
San Francisco Information Clearinghouse
San Francisco, California
Southern Counties Action Movement
Herring, Illinois
Southern Maryland Tri-County Community Action Committee
Hughesville, Maryland
Task Force on Historic Preservation
Richmond, Virginia
Tenants Action Group
Philadelphia, Pennsylvania
Urban League of Philadelphia
Philadelphia, Pennsylvania

"IMPROVING THE CDBG

PROGRAM -- PRESERVING

COMMUNITIES, PREVENTING

DISPLACEMENT AND CREATING

NEW OPPORTUNITIES"

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## STRENGTHENING THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

In 1974, after several years of debate, Congress created the Community Development Block Grant program. It replaced urban renewal, Model Cities, and six other categorical programs with a block grant to local governments.

The Community Development Block Grant program currently has an appropriation level of just under $3 billion. It is used to support housing and economic development projects, public facilities, and related social services.

Seventy percent of the funds flow directly from HUD to city and county governments. They are released after local governments submit an annual statement describing how they intend to spend the funds. Officials must also indicate that they have complied with a number of federal requirements regarding civil rights, citizen participation, and other issues.

The other thirty percent is allocated to state governments. These funds are, in turn, distributed to small cities and nonmetropolitan counties. Awards under this "small cities CDBG program" are made on the basis of an annual statewide competition for the funds.

The Community Development Block Grant legislation gives local and state governments great discretion in deciding how to run this major, decentralized program. CDBG therefore provides support for a very wide variety of projects and services. However, in enacting the program, Congress decided to require that local and state governments comply with a number of national priorities and safeguards.

In particular, the legislation required that the "principal beneficiaries" of the program be low and moderate income people. Current regulations require that 51% of the funds allocated to each jurisdiction be spent to benefit low and moderate income people. The remainder of the funds can be used to prevent or eliminate slums or blight, or to meet urgent local needs.

**Despite its current importance and even greater potential, the Community Development Program is dangerously low on Congress' list of priorities in this era of massive budget cuts.** There is a substantial chance that the program will be cut drastically, or even eliminated, as the budget crisis worsens. Its appropriation level is already at an all-time low; it has been extended rather than reauthorized; and it has few strong defenders on the Senate and House Budget Committees.

At a time when every program is vulnerable, the CD program is an orphan. It has few active champions in Congress. It is seen by many as simply a fiscal transfer program like General Revenue Sharing, whose only enthusiastic proponents are local and state recipients of the funds.

**While CDBG gives preference to projects which benefit lower income people, this targeting is only partial.** Evaluations of CDBG spending have repeatedly shown that -- while the program supports many essential housing, economic development, and service activities -- much of the money is spent on projects which are of low national priority.

For example, in many jurisdictions, substantial portions of the funds are used for administrative staff, including people who have little, if anything, to do with local community development. Some jurisdictions currently use over 25% of the funds to cover government staff salaries and overhead, and seem tempted to use increasing amounts of the CDBG funding to cover activities previously funded under General Revenue Sharing.

Furthermore, there are many examples of funds being used for downtown beautification and parking lots, or curbs and gutters in middle class neighborhoods, rather than vital projects to address homelessness, abandonment, long-term unemployment, and other desperate needs. A recent study of ten cities by the Working Group for Community Development Reform concluded, "Very often jobs promised from CDBG-funded projects fail to materialize and, even when they do, these jobs rarely go to low-income people.... Planning is haphazard and... low- and moderate-income people are consistently excluded from participation in the planning process."

As a result, few legislators on Capitol Hill who give high priority to saving programs which meet the needs of the "truly needy" are committed to saving this program. Many see it as imperfectly targeted, trying to be all things to all people, and being almost as difficult to defend in a time of federal austerity as General Revenue Sharing.

**There is little understanding that, for all of its faults, CDBG has become an increasingly precious resource for low income neighborhoods and rural areas. It is by far the most important single federal resource for local and state governments and neighborhood groups committed to the improvement of low and moderate income communities.** CDBG funds currently represent the essential "glue money" for a great majority of the projects which low income communities need to salvage deteriorating housing, generate jobs, support self-help efforts, and provide essential facilities and services.

The importance of the Community Development program to self-help programs was shown by a recent survey of the neighborhood/public/private partnership projects financed by the Local Initiatives Support Corporation and corporations and foundations working with it. That survey showed that 62% of those low income community economic development and housing projects would not have been feasible without CDBG funds. LISC estimates that 80-90% of the nonprofit community groups developing those projects depend upon CDBG funds to rehabilitate abandoned or deteriorating housing, or to launch a new venture which will generate jobs for lower income people, or to provide essential services for homeless people.

**There is even less understanding that, with tighter targeting and other legislative changes, CDBG could be an exceptional program. With modifications, it could combine the best aspects of decentralized administration and national standards and purpose, and it could spur the kinds of self-help and citizen involvement our cities and rural areas need if they are to be reinvigorated.** It could allow great local flexibility while requiring tight targeting, more emphasis on self-help and neighborhood revitalization, and closer scrutiny of economic development plans to make sure that they represent a sound investment of scarce resources.

**Rather than cut the program, Congress should reform it. A strengthened Community Development program would greatly increase the resources which are, in fact, available to address growing homelessness, the deterioration of older subsidized and public housing, abandonment, deeply entrenched unemployment, and industrial and commercial decline -- those problems which cannot be addressed without targeted federal assistance.**

To survive, the Community Development Block Grant Program must gain much stronger support in the budget process. This can best by done by making the program far more effective in serving the strong national purpose of meeting these most desperate needs and improving housing, job, and business opportunities for low and moderate income people.

The Coalition on Low-Income Community Development therefore supports a new requirement that all CD funds be spent on projects which improve housing or provide other benefits to low and moderate income people. Such a change would be consistent with the "safety net" of this Administration, and, we believe, would earn the support of the many members of Congress concerned about the erosion of programs for lower income families.

The Coalition has drafted a series of amendments to the

CDBG authorizing legislation. Those amendments would increase targeting of the funds, so that the needs of the "truly needy" and working people are more adequately met and CD funds are used more effectively. They would add new requirements to make sure that economic development and housing rehabilitation projects financed with CD funds are more effective in creating jobs and housing opportunities for those who most need them.

The amendments would also encourage local and state governments to give greater priority to self-help efforts launched by neighborhood groups and rural community-based organizations. Finally, they would add new safeguards to encourage broader citizen participation and to reduce the displacement which contributes to homelessness and doubling up and disrupts of low and moderate income neighborhoods.

The proposed amendments are long overdue. They would substantially improve the program, and, by improving the program, they would help to save it. Their passage would strengthen support for CDBG on the Budget Committees and in Congress generally, as these amendments would assure more effective use of the funds, generate more help for the "truly needy", and make certain that the program is carefully targeted to serve an essential national purpose.

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**The Coalition on Low-Income Community Development:**

In early 1986, several low income community organizations and national organizations met to discuss how they might work together to assure the future of the Community Development Block Grant Program. The organizations were very concerned about the vulnerability of CDBG to further cuts, even elimination. They were also impressed by how many grassroots groups had expressed strong interest in fighting to save the program.

The organizations which belong to the Coalition are intimately familiar with how the program operates at the local, state, and national levels. Coalition members include local organizations which represent low and moderate income people (the "principal beneficiaries" of the program under current law) and which have carefully monitored how the program has been implemented in many parts of the country. Also included in the Coalition are virtually all of the national organizations which work on the ground in low income communities throughout the country, helping low

income people in their efforts to improve housing, employment, services, and the quality of life in America's cities and rural areas.

Organizations represented on the steering committee include: ACORN, Center for Community Change (DC), Center for Neighborhood Development (Cleveland), Centro Aztlan (Laredo), Community Development Coalition (Philadelphia), Community Information Exchange (DC), Community Workshop on Economic Development (Chicago), Development Training Institute (Baltimore), Enterprise Foundation (Columbia, MD), Georgia Housing Coalition (McDonough), Housing Assistance Council (DC), Local Initiatives Support Corporation, McAuley Institute (Silver Spring, MD), Michigan Housing Coalition (Lansing), National Association of Community Action Agencies (DC), National Congress on Community Economic Development (DC), National Coalition for the Homeless (DC), National Council of La Raza (DC), National Low Income Housing Coalition (DC), National Neighborhood Coalition (DC), National Urban League (NY), Northside Preservation Commission (St. Louis, MO), Rural Coalition (DC), San Francisco Information Clearinghouse (San Francisco), Southern Counties Action Movement (Herring, IL), Southern Maryland Tri-County Community Action Committee (Hughesville, MD), Task Force on Historic Preservation (Richmond, VA), Tenant Action Group (Philadelphia).

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**Attached is a side-by-side analysis of the current CDBG statute and the changes proposed by the Coalition on Low-Income Community Development.**

## PROPOSED CHANGES IN COMMUNITY DEVELOPMENT PROGRAM

| CURRENT LAW | PROPOSED AMENDMENTS |
|---|---|
| **Targeting** | |
| 51% benefit to low and moderate income people (targeted to those individuals or their neighborhoods) | 100% benefit to low and moderate income people |
| No special percentage requirement or other protections for low income people | At least 51% must benefit low income people |
| **Economic Development Strategy** | |
| No requirement | Must be detailed strategy showing: economic development needs of lower income people and how they will be met, targeting, long term employment creation, priority for community based organizations, and all funds are necessary for viability of projects; prohibits use of funds to displace existing businesses or jobs |
| **Citizen Participation** | |
| Requires public hearing during development of application | Requires citizen participation plan, including hearings at key points in process, citizen access to documents and information, special efforts to involve lower income people and to encourage citizen monitoring of program |
| **Role of Neighborhood and Community Based Organizations** | |
| No requirement | Requires priority for self-help projects carried out by neighborhood and community-based organizations representing the low and moderate income beneficiaries of the program |

| | |
|---|---|
| **Displacement Protections** | |
| Antidisplacement strategy required | No funds to result in involuntary displacement of low and moderate income people unless they are provided decent and safe housing at affordable cost; antidisplacement plan required |
| **Application Requirements** | |
| Requires submission with broad statement of objectives, project costs and locations, and relationship between objectives and choice of projects; requires certifications of compliance with key provisions on targeting, etc. | Requires application which "establishes" that it complies with all provisions of the law |
| **Sanctions for Noncompliance** | |
| Flexibility and discretion left to HUD, including cut off of funds and other strict sanctions | Explicitly permits more stringent sanctions for jurisdictions which repeatedly fail to comply with requirements |

## A TIME FOR TARGETING
## AND MORE EFFECTIVE USE OF FEDERAL FUNDS

The Coalition on Low-Income Community Development has drafted the following proposed legislative changes to the Community Development Block Grant Program. The goals behind these amendments are to improve the program and to increase support for full funding of CDBG in an era of budget-cutting and tough choices.

The proposed language would: target the funds more tightly to benefit low and moderate income people; add new provisions to strengthen the effectiveness of economic development and housing rehabilitation programs in meeting lower income needs; stimulate self-help projects and neighborhood revitalization in low and moderate income neighborhoods; increase citizen participation; and improve the CDBG program in other ways.

The proposed legislative changes follow.

### I. Targeting By Each Jurisdiction Receiving CDBG Funds

In order to ensure the most worthwhile, effective use of scarce federal funds, all CDBG funds should be spent on activities which benefit low and moderate income people, those whose housing, employment, and service needs are most severe.

1. 100% of CDBG funds should be spent on activities which benefit "low" and "moderate" income people, defined as people whose income is 50% or 80% of median, respectively (this would replace the current requirement that 51% benefit those income groups)
2. At least 51% of the funds should be spent on activities which benefit "low" income people (this would be a new requirement, amplifying the current vague, unenforceable requirement that low as well as moderate income people must benefit)
3. With these new requirements, there would no longer be any need for references to alternative expenditures on "slums and blight" or "urgent needs" in the law and regulations.

### II. Economic Development Strategy

If a jurisdiction intends to spend CD funds on economic development, in order to avoid the problems which have emerged over recent years (subsidies for projects which do not need them; lack of efforts to make sure that any jobs are generated, and that those which do go to unemployed and underemployed people; lack of record-keeping, monitoring, and basic accountability), it should be required to develop and include in the application an Economic Development Strategy which:

1. Describes the economic development needs of persons of low and moderate income and the manner in which such economic development activities will meet such needs.
2. Describes the nature and amount of long term employment that will be created by such economic development activities for persons of low and moderate income who are unemployed and underemployed.
3. Demonstrates that assistance under CDBG or Section 106 is necessary to ensure the financial viability of such economic development activities, and ensures that such employment will not be excessively subsidized.
4. Gives priority to community economic development carried out primarily by community-based organizations controlled by persons of low and moderate income.
5. Ensures that the employment created by such economic development will be targetted to persons of low and moderate income residing in the vicinity of such economic development activities.
6. Provides for the expansion of economic opportunities for persons of low and moderate income, including recruitment, training, and vocational development.
7. Requires the participation of the local residents in the preparation of the economic development plan.
8. Promotes neighborhood revitalization goals and activities which include:
    (a) Creation of permanent jobs in low and moderate income neighborhoods;
    (b) Creation or expansion of business opportunities within low and moderate income neighborhoods;
    (c) Development or rehabilitation of housing in low and moderate income neighborhoods;
    (d) Provision of essential services to low and moderate income neighborhoods;

(e) Planning, promotion, and financing of voluntary neighborhood improvement efforts.

9. Prohibits displacement of existing businesses and jobs in neighborhoods through the use of CDBG economic development funds.

10. Ensures compliance with equal opportunity laws and regulations including Public Law 88-352, Public Law 90-284, Executive Order 11246, and Section 3 of the Housing and Urban Development Act of 1968, as amended.

11. Includes measures for tracking and documenting the extent to which the project activities actually benefitted low and moderate income people, including records demonstrating the numbers and income levels of those who benefitted from the employment, business opportunities, and essential services generated by these economic development projects.

## III. Citizen Participation

In order to provide citizens with adequate opportunities to participate in the planning, implementation and assessment of the CDBG program, each recipient jurisdiction should be required to develop a plan for involving citizens in the local program. To ensure this, the 1987 legislation should include the following points:

1. Each entitlement jurisdiction should be required to provide for citizen involvement at the neighborhood level, as well as on a citywide basis, with particular emphasis on areas where a significant amount of activity is proposed or ongoing.

2. All aspects of citizen participation should be conducted in an open manner, with freedom of access for all interested persons. Furthermore, all citizens should have access to local CDBG documents and records in a timely manner.

3. All citizens, particularly lower income persons and residents of distressed areas, should be encouraged to submit their views and proposals.

4. The recipient jurisdiction should provide for continuity of citizen involvement throughout all stages of the program. This includes citizen involvement in the development of a citizen participation plan, as well as involvement in the following areas:

    - The development of the application and requests to use funds
    - The development of the Community Development Plan
    - The development of an overall housing plan (Housing Assistance Plan)
    - The development, implementation and evaluation of programmatic activities
    - Any amendments to the program during the program year

5. To facilitate adequate citizen participation, the plan should provide for technical assistance to local citizens and citizens' groups, with particular emphasis on lower income groups seeking to develop proposals and statements of views and to plan and operate programs and projects.

6. The plan should provide for a sufficient number of public hearings to obtain citizen views and to respond to proposals and questions at all stages of the program.

    - Adequate notice of all hearings should appear in the nonlegal section of newspapers of general circulation ten days prior to each hearing
    - Such hearings should be held at convenient times and locations which encourage broad participation, particularly by lower income residents and residents of distressed areas
    - Hearing arrangements should make possible the full participation of all interested persons, including handicapped and non-English speaking persons

7. The plan should provide that if the recipient jurisdiction sets aside contingency and/or local option funds, citizens will be involved in the selection of activities and projects.

8. The plan should provide for the answering of complaints and grievances in writing within 15 working days of receipt.

## IV. Role of Neighborhood and Community-Based Organizations

In order to encourage self-help in low and moderate income neighborhoods and to develop the capacity of nonprofit commuity-based organizations to take on increasing responsibilities for improving their own communities, the statute should be amended to include the following language.

> In the funding of economic development, housing, and services projects, recipient jurisdictions shall establish criteria and procedures which give maximum feasible priority to projects which are to be carried out by community-based organizations controlled by persons of lower income, and provide technical assistance, training, and funds for staffing in order to build the capacity of such organizations to take on increasing community development responsibilities so that within three years, at least 30% of the funds for such projects are allocated to community-based organizations.

## V. Conserving Neighborhoods and Housing by Barring Displacement

In order to avoid increased homelessness, worsening housing conditions, the disruption of neighborhoods, and hardship to people, CDBG funds should not be used for any project which will result in the involuntary displacement of lower income residents unless CDBG resources are used to provide decent and safe housing at affordable costs in the neighborhood of choice by the displacee.

1. Involuntary displacement caused directly or indirectly by the use of CDBG funds should be prohibited unless it meets the following conditions.

2. CDBG allocations should be dependent on the existence, and approval by HUD, of a jurisdiction-wide anti-displacement plan which citizens help develop, implement, and monitor.

3. In the event that displacement is unavoidable or in the best interest of the households and community affected, whether CDBG funds are combined with public or private financing, the following provisions should be met:

A. The jurisdiction should be required to develop an anti-displacement and relocation assistance plan with the affected residents and community.

B. One for one replacement of all low income units demolished or converted within the same area should be required from governmental agencies or private developers.

C. For those individually or collectively agreeing to be displaced, the public or private sources of displacement should provide replacement housing that is affordable, of equal size, and of equal or improved quality in an area approved by those being displaced.

D. These replacement units should be required to serve the CDBG target population, with preference given to displaced residents, by remaining affordable to them for a period of no less than 40 years.

E. Those displaced pursuant to the terms of subsection (c) should be provided with relocation benefits in a manner which holds them harmless, as follows.

(i) Displaced households should receive reimbursement for moving expenses, security deposits, credit checks, and other moving-related expenses, including any interim living costs.

(ii) Displaced households should receive compensation such that the household shall not bear after relocation, a ratio of shelter costs to income that exceeds that household's ratio of shelter costs to income prior to displacement. In no instance should the post-displacement ratio of shelter costs to income exceed 30 percent. Compensation should be sustained for 15 years.

(iii) Displaced households should be allowed to elect to participate in a housing cooperative or mutual housing association. In such instances, compensation for displacement should enable the household to capitalize the value of the compensation described in (ii) in order to secure participation in a coop or mutual housing association and to maintain the household's ratio of shelter costs to income.

The Growing Rental Housing Crisis: Changes in Median Rents & Renter Income, 1980 - 1985

| State | 1980 Renter Households | 1980 Median Renter Income | 1980 Median rent | 1980 Med rent as % of median rtr income | 1985 Renter Households | 1985 Median Renter Income | 1985 Median rent | 1985 Med rent as % of median rtr income |
|---|---|---|---|---|---|---|---|---|
| Alabama | 400,619 | $8,798 | $235 | 32.1% | 436,706 | $11,437 | $282 | 29.6% |
| Alaska | 54,804 | $17,491 | $206 | 14.1% | 62,477 | $22,738 | $552 | 29.1% |
| Arizona | 303,207 | $11,354 | $214 | 22.6% | 345,656 | $14,760 | $396 | 32.2% |
| Arkansas | 240,596 | $8,647 | $224 | 31.1% | 274,279 | $11,281 | $278 | 29.6% |
| California | 3,804,482 | $12,323 | $368 | 35.8% | 4,337,109 | $16,020 | $425 | 31.8% |
| Colorado | 376,382 | $11,648 | $260 | 26.8% | 429,075 | $15,142 | $378 | 30.0% |
| Connecticut | 394,419 | $12,542 | $211 | 20.2% | 449,638 | $16,306 | $390 | 28.7% |
| Delaware | 64,004 | $11,246 | $255 | 27.2% | 72,965 | $14,620 | $371 | 30.4% |
| Dist of Columbia | 163,315 | $12,383 | $218 | 21.1% | 186,179 | $16,098 | $336 | 25.0% |
| Florida | 1,187,070 | $10,434 | $283 | 32.5% | 1,353,260 | $13,564 | $382 | 33.8% |
| Georgia | 655,220 | $9,903 | $224 | 27.1% | 746,951 | $12,874 | $317 | 29.5% |
| Hawaii | 142,136 | $13,853 | $257 | 22.3% | 162,035 | $18,009 | $467 | 31.1% |
| Idaho | 90,719 | $10,393 | $200 | 23.1% | 103,420 | $13,511 | $327 | 29.0% |
| Illinois | 1,510,612 | $12,361 | $246 | 23.9% | 1,722,098 | $16,069 | $369 | 27.6% |
| Indiana | 545,126 | $11,426 | $270 | 28.4% | 621,444 | $14,854 | $327 | 26.4% |
| Iowa | 296,512 | $11,382 | $251 | 26.5% | 338,024 | $14,797 | $339 | 27.5% |
| Kansas | 259,806 | $11,193 | $215 | 23.1% | 296,179 | $14,551 | $327 | 27.0% |
| Kentucky | 370,486 | $9,283 | $259 | 33.5% | 431,474 | $12,068 | $297 | 29.5% |
| Louisiana | 406,620 | $10,005 | $222 | 26.6% | 554,747 | $13,007 | $321 | 29.6% |
| Maine | 114,814 | $9,348 | $180 | 23.1% | 130,888 | $12,152 | $324 | 32.0% |
| Maryland | 555,198 | $13,508 | $266 | 23.6% | 632,926 | $17,560 | $399 | 27.3% |
| Massachusetts | 862,910 | $11,410 | $218 | 22.9% | 983,717 | $14,833 | $383 | 30.9% |
| Michigan | 873,241 | $11,732 | $224 | 22.9% | 992,495 | $15,252 | $375 | 29.5% |
| Minnesota | 404,484 | $10,992 | $236 | 25.8% | 466,812 | $14,290 | $354 | 29.7% |
| Mississippi | 239,457 | $8,187 | $195 | 28.6% | 272,981 | $10,643 | $270 | 30.4% |
| Missouri | 544,598 | $10,397 | $215 | 24.8% | 620,842 | $13,516 | $317 | 28.1% |
| Montana | 89,162 | $10,199 | $246 | 28.9% | 101,643 | $13,259 | $300 | 27.2% |
| Nebraska | 180,476 | $11,133 | $206 | 22.2% | 205,743 | $14,473 | $320 | 26.5% |
| Nevada | 123,072 | $12,868 | $188 | 17.5% | 140,302 | $16,728 | $465 | 33.4% |
| New Hampshire | 104,653 | $11,552 | $226 | 23.5% | 119,304 | $15,018 | $377 | 30.1% |
| New Jersey | 968,474 | $12,674 | $264 | 25.0% | 1,104,060 | $16,476 | $405 | 29.5% |
| New Mexico | 140,098 | $10,003 | $249 | 29.9% | 160,624 | $13,004 | $323 | 29.8% |
| New York | 3,257,259 | $11,576 | $252 | 26.1% | 3,713,275 | $15,049 | $374 | 29.8% |
| North Carolina | 645,865 | $9,987 | $225 | 27.0% | 736,286 | $12,983 | $308 | 28.4% |
| North Dakota | 71,149 | $10,483 | $203 | 23.2% | 81,110 | $13,628 | $309 | 27.2% |
| Ohio | 1,210,806 | $11,078 | $211 | 22.9% | 1,380,319 | $14,401 | $338 | 28.1% |
| Oklahoma | 327,955 | $10,183 | $205 | 24.2% | 373,869 | $13,238 | $323 | 29.2% |
| Oregon | 345,641 | $11,311 | $185 | 19.6% | 394,031 | $14,704 | $386 | 31.5% |
| Pennsylvania | 1,268,944 | $10,840 | $213 | 23.6% | 1,446,596 | $14,092 | $336 | 28.6% |
| Rhode Island | 139,515 | $10,028 | $250 | 29.9% | 159,047 | $13,036 | $333 | 30.7% |
| South Carolina | 307,422 | $9,912 | $254 | 30.8% | 350,461 | $12,886 | $309 | 28.8% |
| South Dakota | 74,521 | $9,067 | $234 | 31.0% | 84,954 | $11,787 | $282 | 28.7% |
| Tennessee | 508,422 | $9,494 | $188 | 23.8% | 579,601 | $12,342 | $305 | 29.6% |
| Texas | 1,759,679 | $11,727 | $310 | 31.7% | 2,006,034 | $15,265 | $369 | 29.0% |
| Utah | 131,396 | $11,390 | $311 | 32.8% | 149,791 | $14,807 | $353 | 28.6% |
| Vermont | 55,765 | $9,768 | $247 | 30.3% | 63,572 | $12,698 | $336 | 31.8% |
| Virginia | 641,443 | $12,103 | $216 | 21.4% | 731,291 | $15,734 | $389 | 29.6% |
| Washington | 529,188 | $11,647 | $218 | 22.5% | 603,274 | $15,141 | $381 | 30.2% |
| West Virginia | 181,390 | $9,670 | $252 | 31.3% | 206,785 | $12,571 | $293 | 27.9% |
| Wisconsin | 524,894 | $11,705 | $198 | 20.3% | 598,379 | $15,217 | $351 | 27.7% |
| Wyoming | 50,972 | $13,875 | $243 | 21.0% | 58,108 | $18,038 | $378 | 25.1% |
| TOTAL | 28,592,838 | $11,331 | $255 | 27.0% | 32,595,835 | $14,730 | $365 | 29.7% |

Source: Low Income Housing Information Service. Estimated by Cushing Dolbeare from 1980 Census data.

## The Growing Rental Housing Crisis: 1980 Compared with 1985

| Area | 1980 Renter HH (50% median) | 1980 Afford-able rent at 30%) | 1980 Afford able Units | 1980 Gap or surplus | 1980 Rental crisis index | 1985 Renter HH (50% median) | 1985 Afford-able rent at 30% of income | 1985 Afford able Units | 1985 GAP | 1985 RENTAL CRISIS INDEX | INCREASE IN GAP 1980-85 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Alabama | 100,155 | $110 | 105,250 | 5,095 | 0.952 | 114,176 | $143 | 88,050 | (26,126) | 1.297 | 31,221 |
| Alaska | 13,701 | $219 | 12,881 | (820) | 1.064 | 15,619 | $284 | 13,497 | (2,122) | 1.157 | 1,302 |
| Arizona | 75,802 | $142 | 54,093 | (21,709) | 1.401 | 86,414 | $185 | 45,407 | (41,007) | 1.903 | 19,299 |
| Arkansas | 60,149 | $108 | 63,324 | 3,175 | 0.950 | 68,570 | $141 | 57,205 | (11,364) | 1.199 | 14,539 |
| California | 951,121 | $154 | 462,348 | (488,773) | 2.057 | 1,084,277 | $200 | 294,871 | (789,406) | 3.677 | 300,634 |
| Colorado | 94,096 | $146 | 58,236 | (35,860) | 1.616 | 107,269 | $189 | 47,542 | (59,727) | 2.256 | 23,868 |
| Connecticut | 98,605 | $157 | 65,902 | (32,703) | 1.496 | 112,409 | $204 | 40,106 | (72,303) | 2.803 | 39,600 |
| Delaware | 16,001 | $141 | 10,326 | (5,675) | 1.550 | 18,241 | $183 | 8,155 | (10,086) | 2.237 | 4,410 |
| Dist of Columb | 40,829 | $155 | 28,248 | (12,581) | 1.445 | 46,545 | $201 | 14,866 | (31,679) | 3.131 | 19,098 |
| Florida | 296,768 | $130 | 176,311 | (120,457) | 1.683 | 338,315 | $170 | 149,544 | (188,771) | 2.262 | 68,314 |
| Georgia | 163,805 | $124 | 159,874 | (3,931) | 1.025 | 186,738 | $161 | 120,916 | (65,822) | 1.544 | 61,891 |
| Hawaii | 35,534 | $173 | 34,662 | (872) | 1.025 | 40,509 | $225 | 26,803 | (13,706) | 1.511 | 12,834 |
| Idaho | 22,680 | $130 | 18,222 | (4,458) | 1.245 | 25,855 | $169 | 16,331 | (9,524) | 1.583 | 5,066 |
| Illinois | 377,453 | $155 | 260,396 | (117,057) | 1.449 | 430,524 | $201 | 154,265 | (276,260) | 2.791 | 159,203 |
| Indiana | 136,282 | $143 | 119,115 | (17,167) | 1.144 | 155,361 | $186 | 97,289 | (58,072) | 1.597 | 40,905 |
| Iowa | 74,128 | $142 | 64,023 | (10,105) | 1.158 | 84,506 | $185 | 51,834 | (32,672) | 1.630 | 22,567 |
| Kansas | 64,952 | $140 | 63,232 | (1,720) | 1.027 | 74,045 | $182 | 50,207 | (23,837) | 1.475 | 22,117 |
| Kentucky | 94,622 | $116 | 99,873 | 5,251 | 0.947 | 107,869 | $151 | 81,268 | (26,601) | 1.327 | 31,852 |
| Louisiana | 121,655 | $125 | 119,683 | (1,972) | 1.016 | 138,687 | $163 | 95,411 | (43,275) | 1.454 | 41,303 |
| Maine | 28,701 | $117 | 21,788 | (6,913) | 1.317 | 32,722 | $152 | 19,041 | (13,681) | 1.718 | 6,768 |
| Maryland | 138,800 | $169 | 102,686 | (36,114) | 1.352 | 158,231 | $220 | 56,459 | (101,772) | 2.803 | 65,658 |
| Massachusetts | 215,720 | $143 | 150,930 | (64,790) | 1.429 | 245,929 | $185 | 103,919 | (142,010) | 2.367 | 77,220 |
| Michigan | 218,310 | $147 | 139,787 | (78,523) | 1.562 | 248,874 | $191 | 118,202 | (130,671) | 2.105 | 52,149 |
| Minnesota | 102,371 | $137 | 77,080 | (25,291) | 1.328 | 116,703 | $179 | 55,578 | (61,125) | 2.100 | 35,834 |
| Mississippi | 59,864 | $102 | 64,902 | 5,038 | 0.922 | 68,245 | $133 | 60,592 | (7,653) | 1.126 | 12,692 |
| Missouri | 136,150 | $130 | 119,834 | (16,316) | 1.136 | 155,210 | $169 | 98,461 | (56,749) | 1.576 | 40,433 |
| Montana | 22,241 | $128 | 22,946 | 705 | 0.969 | 25,411 | $166 | 19,194 | (6,218) | 1.324 | 6,923 |
| Nebraska | 45,119 | $139 | 44,626 | (493) | 1.011 | 51,436 | $181 | 34,229 | (17,206) | 1.503 | 16,713 |
| Nevada | 30,768 | $161 | 14,090 | (16,678) | 2.184 | 35,076 | $209 | 9,635 | (25,441) | 3.641 | 8,763 |
| New Hampshire | 26,163 | $144 | 18,109 | (8,054) | 1.445 | 29,826 | $188 | 15,108 | (14,719) | 1.974 | 6,665 |
| New Jersey | 242,119 | $158 | 139,456 | (102,663) | 1.736 | 276,015 | $206 | 83,711 | (192,304) | 3.297 | 89,641 |
| New Mexico | 35,225 | $125 | 31,734 | (3,491) | 1.110 | 40,156 | $163 | 28,343 | (11,813) | 1.417 | 8,321 |
| New York | 814,315 | $145 | 489,565 | (324,750) | 1.663 | 928,319 | $188 | 390,630 | (537,689) | 2.376 | 212,939 |
| North Carolina | 161,466 | $125 | 154,105 | (7,361) | 1.048 | 184,072 | $162 | 136,009 | (48,062) | 1.353 | 40,701 |
| North Dakota | 17,787 | $131 | 18,153 | 366 | 0.980 | 20,277 | $170 | 13,832 | (6,445) | 1.466 | 6,811 |
| Ohio | 302,702 | $128 | 232,871 | (69,831) | 1.300 | 345,080 | $166 | 179,494 | (165,586) | 1.922 | 95,755 |
| Oklahoma | 81,989 | $127 | 75,987 | (6,002) | 1.079 | 93,467 | $165 | 61,682 | (31,785) | 1.515 | 25,783 |
| Oregon | 86,410 | $141 | 51,040 | (35,370) | 1.693 | 98,508 | $184 | 40,851 | (57,657) | 2.411 | 22,287 |
| Pennsylvania | 317,236 | $136 | 263,253 | (53,983) | 1.205 | 361,649 | $176 | 208,344 | (153,305) | 1.736 | 99,322 |
| Rhode Island | 34,879 | $125 | 26,154 | (8,725) | 1.334 | 39,762 | $163 | 19,262 | (20,500) | 2.064 | 11,775 |
| South Carolina | 76,856 | $124 | 81,334 | 4,478 | 0.945 | 87,615 | $161 | 70,536 | (17,079) | 1.242 | 21,557 |
| South Dakota | 18,636 | $113 | 20,427 | 1,791 | 0.912 | 21,238 | $147 | 16,453 | (4,786) | 1.291 | 6,577 |
| Tennessee | 127,106 | $119 | 126,497 | (609) | 1.005 | 144,900 | $154 | 97,660 | (47,240) | 1.484 | 46,631 |
| Texas | 439,920 | $147 | 376,465 | (63,455) | 1.169 | 501,509 | $191 | 285,175 | (216,333) | 1.759 | 152,878 |
| Utah | 32,549 | $142 | 21,810 | (10,739) | 1.492 | 37,448 | $185 | 18,791 | (18,657) | 1.993 | 7,917 |
| Vermont | 13,941 | $122 | 8,717 | (5,224) | 1.599 | 15,893 | $159 | 8,142 | (7,751) | 1.952 | 2,527 |
| Virginia | 160,371 | $151 | 115,268 | (45,103) | 1.391 | 182,823 | $197 | 96,930 | (85,892) | 1.886 | 40,789 |
| Washington | 131,297 | $146 | 89,014 | (42,463) | 1.473 | 150,819 | $189 | 69,547 | (81,271) | 2.169 | 38,786 |
| West Virginia | 45,388 | $121 | 51,081 | 5,693 | 0.888 | 51,696 | $157 | 46,403 | (5,293) | 1.114 | 10,986 |
| Wisconsin | 131,224 | $146 | 93,064 | (38,160) | 1.410 | 149,595 | $190 | 75,923 | (73,671) | 1.970 | 35,512 |
| Wyoming | 12,743 | $173 | 15,137 | 2,394 | 0.842 | 14,527 | $225 | 9,342 | (5,185) | 1.555 | 7,579 |
| TOTAL | 7,107,912 | $142 | 5,353,297 | (1,754,615) | 1.328 | 8,146,954 | $184 | 4,206,018 | (3,940,936) | 1.937 | 2,186,321 |

Source: Estimated by Cushing Dolbeare for Low Income Housing Information Service

Senator **Cranston**. Thank you very much. That's very helpful advice you've given us.

Our next witness is Alonzo Watson, Executive Director, South Bend Housing Authority, South Bend, Indiana; Public Housing Authorities Directors Association.

## STATEMENT OF ALONZO WATSON, EXECUTIVE DIRECTOR, SOUTH BEND HOUSING AUTHORITY, SOUTH BEND, IN, PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION

Mr. **Watson**. Thank you, Mr. Chairman.

My name is Alonzo Watson. I am vice president of Housing of the Public Housing Authorities Directors Association, more commonly known as PHA/DA, and executive director of the South Bend Housing Authority, South Bend, IN.

I would like to thank you for giving us the opportunity to testify before the Senate Subcommittee on Housing and Urban Affairs. I am representing the Public Housing Authorities Directors Association which is an organization that represents over 800 public housing authorities in the United States.

As you know so well, it is truly important that this Nation continue its commitment to provide decent, safe, and sanitary shelter for all Americans, particularly for those of low and moderate income. It is my understanding that your committee is going to use S. 2507 that was passed by the Senate last year as a base to begin working on this year's bill. Therefore, I would like to speak to you regarding certain sections of S. 2507.

### ADMINISTRATION FEES

We strongly encourage your continued support of returning the administrative fees paid for the section 8 program back to the amount that was established by the Secretary before January 1, 1985. Namely, 8.5 percent for administrative fees. We feel that this percentage is necessary to adequately underwrite the cost of administering all section 8 activities and should apply to both section 8 certificates and vouchers. PHA/DA also recommends that you continue your effort to ensure that all individuals and families are paying their fair share of rent in public housing accommodations.

One method of allowing us to assure that the level of benefits provided under these programs is proper is to require that an applicant or participant disclose his or her Social Security number or employee identification number. This disclosure would give us a better opportunity to prevent fraud and abuse of the program.

We encourage you to consider making public housing authorities eligible for funds authorized under your section 202 program for elderly residents. Public housing authorities across the Nation have exhibited for many years not only their concern for our elderly citizens but their expert management abilities in providing housing and support services for those who have contributed so much of their life and energies to our communities.

We also urge that public housing authorities be considered eligible for funds authorized under programs for the homeless. Documented evidence from various sources supports the position that the number of homeless individuals and families has been steadily

4. CDBG funds should not be used to promote or induce real estate speculation.

5. Applications for the use of CDBG funds should certify that no displacement has occurred during the prior year in violation of these provisions.

## VI. Application Process

In order to ensure compliance with federal law, and in order to give jurisdictions knowledge in advance about whether their plans are in compliance, the statute should be amended to return to requiring each jurisdiction to submit an annual application for review and approval. These applications should include:

(1) A three-year community development plan which identifies community development, economic development, and housing needs of lower income residents; demonstrates a comprehensive strategy for meeting those needs; specifies both short- and long-term priorities, objectives, and activities related to the needs assessment; and states how the priorities, objectives, and activities will directly benefit lower income people.

(2) An annual program which: (A) includes a description of the activities to be undertaken to meet identified needs, priorities, and objectives, together with the estimated costs and census location of such activities, (B) indicates resources other than those provided under this title which are expected to be made available toward meeting identified needs, priorities, and objectives, and (C) estimates the number of low income people to benefit from each activity as well as the manner in which they shall benefit.

B. The Secretary should approve an application only after affording citizens and HUD a reasonable period of time to review and comment on the application.

1. During this period, and prior to approving an application, the Secretary should accept and consider any significant information and data which calls into question either the accuracy of an applicant's assessment or the appropriateness of an applicant's priorities and activities in meeting the needs of lower income people.

2. The Secretary should be required to approve an application unless:

(i) The Secretary determines that the applicant's description of community and economic development and housing needs and objectives is plainly inconsistent with significant information and data; or

(ii) The Secretary determines that the activities to be undertaken are plainly inappropriate to meeting the needs and objectives identified by the applicant pursuant to subsection (A); or

(iii)The Secretary determines that the application does not comply with the requirements of this title or applicable law, or proposes activities which are ineligible under this title.

3. The Secretary may conditionally approve applications which contain plainly inconsistent information or plainly inappropriate activities as indicated in subsection (B)(2), provided funds from this title are withheld, in an amount corresponding to the activities under question, until information is made consistent or activities are made appropriate.

4. The Secretary shall design: (A) a standard format for the submission of citizen challenges to an applicant's program, and (B) a standard procedure for HUD review and action on such challenges within a reasonable period of time.

5. The Secretary shall review all applications and consider relevant evidence which challenges certifications or information submitted by the applicant, and shall require additional information from the applicant as warranted. The review will include, but need not be limited to, the following matters contained in the application, grantee performance report, or monitoring reports:

(i) Eligibility of proposed activities;

(ii) Program benefit to lower income persons;

(iii)Consistency of the needs stated in the plan with generally available data;

(iv) Appropriateness of proposed plans and programs to meeting the applicants' needs and objectives;

(v) Compliance with previous contract conditions or other corrective and remedial actions required by the Secretary;

(vi) Experience regarding the effectiveness of the proposed activities in meeting the community development needs in the locality.

6. An application submitted after any date established by the Secretary for consideration of applications, shall be deemed approved within 75 days of receipt unless the Secretary informs the applicant of specific reasons for disapproval. Subsequent to approval of the application, the amount of the grant may be adjusted in accordance with the provisions of this title.

7. Applicants shall maintain files available to citizens, which document the basis on which a determination was made that activities benefit lower income people. The Secretary will monitor applicants' performance to ensure that each applicant's community development program benefits lower income people.

8. The Secretary shall, at least on an annual basis, make such reviews and audits as may be necessary or appropriate to determine whether the grantee has carried out a program substantially as described in its application, whether that program conformed to the requirements of this title and other applicable laws, and whether the applicant has a continuing capacity to carry out, in a timely manner, the approved Community Development Program. The Secretary may make appropriate adjustments in the amount of the annual grants in accordance with any findings pursuant to this subsection.

9. In order to ensure that the requirements of this subsection are met, the Secretary mustallocate sufficient staff and other resources to the Community Planning and Development division of HUD to permit increased monitoring of applicant programs.

A reasonable period of time should be established to allow HUD to review each application. During this period HUD should be required to consider information and data which

challenges the accuracy and appropriateness of priorities and activities. If all or any of the priorities and activities are disallowed, a corresponding percentage of the funds should be held by HUD until the dispute is resolved. HUD must also allocate sufficient staff and money to CPD to permit increased monitoring of local programs.

## VIII. Imposition of Sanctions

A process should be developed and implemented which provides citizens with the opportunity to challenge the accuracy and appropriateness of the grantee's application. This process should include:

A. A standardized format for the submission of challenges.

B. Specific requirement that HUD conduct investigations of complaints and responds to complainants within a specified time period (maybe 30 days).

C. Specific authorization for HUD to withhold funds until disputes are resolved.

D. Stronger sanctions for jurisdictions who repeatedly are found to be in violation of the law and/or regulations.

## Housing Needs Analysis

Greater emphasis should be put on housing needs in the selection of projects (particularly in the state operated program), perhaps by strengthening the housing needs analysis by requiring performance goals. All grantees should be required to include performance goals in the application. In state operated programs, states should be required to take these performance goals into account in selecting projects.

## Small Cities

There should be no prohibitions on consecutive multi-year, multi-purpose funding for rural areas and small cities.

January 21, 1987

## SUMMARY OF COMMUNITY BASED SUPPLY PROGRAM

### I. PURPOSE

To provide funds through state and local governments to finance development, acquisition, rehabilitation and other expenses connected with the creation or preservation of affordable housing for low income persons, principally through community-based nonprofit sponsors. Housing provided under this program shall remain affordable to low income residents in perpetuity. Local programs must be designed to the greatest practical extent to assure long-term availability of the units to low income residents.

To finance technical assistance, start up funding, seed money loans and grants, and advances for pre-development costs for qualified nonprofit community-based sponsors carrying out development under this program.

### II. ALLOCATION

A. 75 percent of the funds would be distributed directly to local governments which qualify as entitlement jurisdictions under the Community Development Block Grant (CDBG) program, and to states for administration in other areas.

B. The remaining 25 percent of appropriated funds would be reserved to the Secretary of HUD for allocation for the following:

1. Direct grants to qualified sponsors located in communities unable or unwilling to participate in the program.

2. Direct grants to qualified sponsors with qualified projects who are unable to secure funding from the state or local government.

3. To provide grants for innovative or special purpose housing development on a competitive basis.

4. To provide incentive grants to state and local governments for programs which leverage federal contributions, use other sources to augment the program, or add state or local funds to the program resources provided through this program.

C. Grant recipients would be required to reallocate the funds directly to program participants. First priority must be given in the grantee's allocation to the following types of organizations. All grant recipients must be able to show that they are directly accountable to low income residents for whom they are developing housing, or that they have a written plan and commitment to turn housing developed with program resources over to resident control upon completion of the project.

1. Nonprofit organizations which have the preservation or production of affordable low income housing as one of their principal exempt purposes;

2. Mutual housing associations;

3. tenant associations.

D. If, after the first six months following fund allocation from the federal government, the grantee has unreserved funds left, the balance may be made available to others including profit-motivated sponsors, public agencies and others willing to meet the other requirements of the program.

E. Grantees must develop a funding plan which responds to the most critical needs identified in their Housing Assistance Plan.

### III. ELIGIBLE ACTIVITIES

A. Direct capital grants for development, acquisition and rehabilitation activities.

B. Direct loans with deferred payment of principal and interest provided that housing financed with these funds remains occupied by low income people at affordable rent or carrying charges. Payment of principal and interest may be deferred through the entire term of the loan, and may be forgiven at the end of the term provided the housing is placed in trust for permanent availability to low income residents, or is given to a resident controlled housing cooperative for the same purpose.

C. Operating assistance to provide sufficient resources to assure affordability by low income residents, and to provide adequate reserves for operations and repairs through the life of the property.

D. All grantees must set aside at least one percent (1%) of the funds for the following purposes:

1. Advances to qualified sponsors for predevelopment costs;

2. Technical assistance and training for qualified sponsors and tenant associations, cooperatives and mutual housing associations assisted through this program;

3. Continuing support of sponsors for developing, managing and conserving properties assisted by them and meeting the purposes of this program.

## **IV. ELIGIBLE PROPERTIES**

A. Existing housing, newly constructed housing or rehabilitated properties would all be eligible for assistance under this program.

B. Minimum set-asides

1. At least 75 percent of all units must be occupied by households with incomes below 80 percent of the area median, adjusted for family size.

2. At least 50 percent of the units must be occupied by households with incomes below 50 percent of the area median, adjusted for family size.

3. Rents or carrying charges paid by tenants cannot exceed 30 percent of income, including all utilities except telephones.

C. Owners and sponsors must agree to maintain the low income character of the property for a period of not less than 40 years from initial occupancy. Tenants may remain in properties if their income rises to exceed the low income limitations, but owners must rent vacant units first to qualified low income households in order to maintain the greatest practicable compliance with the minimum set asides at initial occupancy. Over-income tenants must continue to pay 30 percent of their income for rent or carrying charges.

D. Housing cooperatives assisted under this program must be structured to limit the appreciation of equity to assure continued affordability of cooperative units for low income residents. Sale or disposition of a cooperative assisted under this program must be to a qualified nonprofit organization which will continue to operate the property as low income housing, or will use all sale proceeds to develop additional affordable housing for low income households. Housing cooperatives assisted under this program must provide and follow a comprehensive plan for continuing training and education of residents and board members to assure continuity of resident control over the housing.

E. Owners must recertify tenant incomes each year and provide documentation to grantees of continuing compliance with the minimum set aside requirements of this program.

F. Program funds may be used to assist scattered site projects involving properties located on separate parcels provided that such projects provide 100 percent of the units developed with program assistance to qualified low income residents.

G. Grantees may fund projects which provide for disposition of the housing developed directly to tenants or qualified housing cooperatives, provided such disposition includes guarantees that subsequent sales or disposition will be to qualified low income purchasers and that equity appreciation will be limited in such cases to assure continued affordability of the units to qualified households.

H. Funds received under this program shall not be considered "federal subsidies" as described in Section 42 of the Internal Revenue Code for purposes of the low income housing tax credit.

## **V. ADDITIONAL REQUIREMENTS**

A. All grantees must comply with federal equal opportunity, affirmative action and fair housing protections.

B. Grantees may not use funds under this program where existing tenants will be displaced from their homes involuntarily. Where temporary or permanent displacement cannot be avoided, all affected tenants must be guaranteed a unit comparable to the one from which they are displaced, at a cost comparable to that in their original housing unit, but not to exceed in any event 30 percent of income, in the same neighborhood or in a neighborhood of their choice. Relocation payments and expenses **are not** an eligible expense under this program, but may be paid for through CDBG or other sources.

C. Program sponsors must provide a plan for and follow a program of resident participation in development and management decisions undertaken with program funds.

D. Sponsors and owners must adhere to fair lease and grievance procedures.

E. Grantees must conduct hearings on community housing needs, project locations, and other issues relating to the selection and operation of projects assisted with these funds.

F. HUD must develop adequate record-keeping requirements and mandate public access to such records to permit community monitoring of program expenditures and operations.

G. Grantees must develop and follow affirmative action programs to maximize participation in construction, management and maintenance employment opportunities arising from expenditures of program funds for low income people, particularly residents of the communities in which projects are assisted.

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**National**
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*Hon. Edward W. Brooke, Honorary Chairperson* *Barry Zigas, President*

## RENTAL HOUSING CRISIS INDEX

The Rental Housing Crisis Index is a means of determining housing needs. It is the number of very low income renter households divided by the number of existing affordable rental units. Thus, the higher the index, the worse the problem. Any Index greater than 1.00 indicates more households in need of affordable housing than there are rental units available in the state.

The tables presented are based on 1980 census data, trended forward to get estimates for 1985. There are two tables for 1980 and two for 1985. The tables list the states alphabetically and by degree of severity. For each state the tables show the following information:

. THE NUMBER OF RENTER HOUSEHOLDS EARNING 50% OR LESS OF MEDIAN RENTER INCOME FOR THE STATE.

. AN AFFORDABLE MONTHLY RENT AT 30 PERCENT OF THIS INCOME LEVEL.

. THE NUMBER OF RENTAL UNITS BY STATE WHICH CAN BE RENTED AT THIS AFFORDABLE RENT.

. THE GAP BETWEEN THE RENTER HOUSEHOLDS WITH INCOMES BELOW 50 PERCENT OF THE RENTER MEDIAN INCOME, AND THE NUMBER OF UNITS RENTING AT THIS AFFORDABLE RATE.

PLEASE NOTE: This analysis is a conservative estimate of the unmet affordable rental housing need, since it includes all units renting at the stated level whether or not they are standard, and assumes that all are available to low income renter households, which is seldom the case.

(This information was developed by the Low Income Housing Information Service, and is derived from the 1980 Census.)

increasing for the past several years. Besides those who can be readily counted as homeless because they are on the streets or in housing shelters designed for the homeless, we are faced with an additional problem. A substantial number of families throughout this Nation are doubling up in our public housing units and actually should be classified as homeless. Public housing authorities would appreciate the opportunity of receiving additional funding which allows us to continue to work with this needy group of people.

PHA/DA has found that there is a disparity in the amount of rent charged the working poor as compared to the social service recipient.

In the case of the working person, we base the percentage of rent on gross income. With the social service recipient, we base it on net income. To eliminate that disparity PHA/DA recommends a flat minimum rent for social service recipients. This minimum rent should be 30 percent of the local fair market rent or the shelter and utility allocation as defined by the social service in each State, whichever is greater.

We also recommend that a ceiling rent or maximum rent be established at the fair market rent in each community to allow us to maintain economic balance in our developments. We need the economic balance and a stable tenant population to greatly improve the social and economic welfare of the residents of our neighborhoods. To enable us to continue to operate our developments in an efficient manner, we encourage you to reject the shift of funds availability suggested by the administration for performance funding subsidy and comprehensive improvement assistance program funds approved in the fiscal year 1987 budget. In addition to rejecting shift of funds availability, we urge you to adequately fund PFS and CIAP for this fiscal year. PFS must be funded at a level which will provide 100 percent of eligible funding to each housing authority while also compensating for the tremendous increase in insurance premiums that all housing authorities are experiencing. PHA/DA advocates funding of $1.665 billion for PFS.

CIAP should be funded at $1.4 billion on a direct grant basis. This will allow us to continue to modernize and improve our public housing projects.

Mr. Chairman, we support the continued efforts of this committee to analyze varying viewpoints as you develop your legislation. I have tried to present the position of the Public Housing Authorities Directors Association on a very limited number of positions that you will discuss. I am available to you to answer any questions that you may have.

[The complete prepared statement of Alonzo Watson follows:]

Senator CRANSTON. Thank you very, very much.

The final witness on this panel is Robert McKay, Executive Director, Council of Large Public Housing Authorities. We welcome you.

## STATEMENT OF ROBERT McKAY, EXECUTIVE DIRECTOR, COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

Mr. McKAY. Thank you, Mr. Chairman. My name is Robert McKay. I am the director of the Council of Large Public Housing Authorities.

First of all, I wanted to congratulate you on taking this chairmanship. The other active members of your panel as well as your excellent staff director we have worked with in the past and look forward to continuing our relationship and openness and willingness to provide you or any members of your committee with whatever information may be needed to help explore some of these important areas.

Senator CRANSTON. Thank you.

Mr. McKAY. In spite of the growing crisis of housing availability and affordability among low-income families and the elderly, the Reagan administration, as we've seen, has continued to propose substantial cuts in the housing assistance programs. No other area has taken the magnitude of cuts that has befallen us, from $25 billion in 1980 to less than $4 billion as proposed in the fiscal year 1988 budget.

Public housing and the section 8 existing and mode rehab programs are the backbone of what remains of the Federal presence in low-income housing. With over 1.34 million units, public housing is the largest national housing program for poor households, and also houses poorer people than any other program.

### LONG WAITING LISTS FOR HOUSING

The average annual income for public housing residents is between $5,000 and $6,000 per year. Almost 1 million households are on public housing waiting lists in the country, patiently awaiting an opening. In mid-1986, for example, there were more than 13,000 waiting for openings in Baltimore's 17,000 units; 1,700 waiting for Akron's 4,700 units; 44,000 waiting for Chicago's 49,000 units; 2,700 waiting for 2,800 public housing units in Sacramento, CA, and in Greensboro, NC, 1,200 waiting for 2,200 units. In New York City, the list now stands at 200,000. They have a waiting list larger than the actual number of occupied units.

Public housing is also the most economic, and on an annualized per unit basis is the most economic of any of the housing programs.

And section 8, the program for leased apartments in privately owned buildings, is almost as large as the public housing program. The section 8, with its mod rehab component, provides subsidies for over 1 million households, and these, of course, are paying 30 percent of their income, no more than 30 percent, and they average income of around $5,800 a year. These are low-income housing programs.

So that the housing shortage that we see around us gives us no alternative but to maintain and improve existing public housing and to provide new units.

Everyone is studying the problem of the homeless without starting from the basic fact that homeless people are homeless because they do not have roofs over their heads, and this is so because there is a critical shortage of affordable low-income housing. The homeless cannot be disposed of with bluster about involving the private sector. Any serious program for dealing with the housing shortage in this country must include a substantial public housing component.

Mr. Chairman, your committee has invited testimony on two topics, the authorizing legislation and the other is on the 1988 budget.

First of all, S. 2507, we certainly have worked with the committee on this and support the provisions in it that have helped upgrade and to maintain the section 8 program.

The public housing development limitations which were put into last year's bill, we certainly recognize that there are some places in the country where new development is not critical, but in most of the rest of the country, new construction, acquisition with major rehab or redevelopment and also fixing up the deteriorated older public housing is still the best and most cost-effective way to provide housing in most areas of the country especially where the housing market is tight and vacancy rates are low. There is no cheap fix that HUD talks about in their Voucher Program. These amendments that have been brought forward that are going to limit the development program are an effort by the administration, we feel, to kill it, so that there will be no public housing program left in 10 years.

The vacant or deteriorating unit often remains so, only because modernization funding is inadequate and for no other reason. The fact that a housing authority may have many units in need of modernization does not mean that there aren't also substantial needs for additional units in that community. Before these amendments are adopted, there should at least be hearings on the amendments to examine the implications for housing authorities and the needy low-income client groups throughout the nation and to examine the circumstances in each community.

Again, let me thank the committee for being able to appear before you today, to thank the chairman for assuming the chairmanship of this very critical committee at this time in our housing needs in this country and to pledge our support to both the committee and the staff and Senator Graham and his staff to help, as we move to face the need of these low income people in our communities.

Thank you.

[The complete prepared statement of Robert E. McKay follows:]

# STATEMENT
OF
THE PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION
PRESENTED
BY
ALONZO WATSON
VICE-PRESIDENT OF HOUSING

MY NAME IS ALONZO WATSON, VICE-PRESIDENT OF HOUSING OF THE PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION (PHA/DA) AND EXECUTIVE DIRECTOR OF THE SOUTH BEND HOUSING AUTHORITY, SOUTH BEND, INDIANA.

MR. CHAIRMAN, I'D LIKE TO THANK YOU FOR GIVING US THE OPPORTUNITY TO TESTIFY BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS. I AM REPRESENTING THE PUBLIC HOUSING AUTHORITIES DIRECTORS ASSOCIATION WHICH IS AN ORGANIZATION THAT REPRESENTS OVER 800 PUBLIC HOUSING AUTHORITIES IN THE UNITED STATES. AS YOU KNOW SO WELL, IT IS TRULY IMPORTANT THAT THIS NATION CONTINUE ITS COMMITMENT TO PROVIDE DECENT, SAFE, AND SANITARY SHELTER FOR ALL AMERICANS, PARTICULARLY FOR THOSE PERSONS OF LOW AND MODERATE INCOME.

IT IS MY UNDERSTANDING THAT YOUR COMMITTEE IS GOING TO USE S.2507 THAT WAS PASSED BY THE SENATE LAST YEAR AS A BASE TO BEGIN WORK ON THIS YEARS BILL. THEREFORE, I'D LIKE TO SPEAK TO YOU REGARDING CERTAIN SECTIONS OF S.2507.

WE STRONGLY ENCOURAGE YOUR CONTINUED SUPPORT OF RETURNING THE ADMINISTRATIVE FEES PAID FOR THE SECTION 8 PROGRAM BACK TO THE AMOUNT THAT WAS ESTABLISHED BY THE SECRETARY BEFORE JANUARY 1, 1985. NAMELY, 8.5 PERCENT FOR ADMINISTRATIVE FEES. WE FEEL THAT THIS PERCENTAGE IS NECESSARY TO ADEQUATELY UNDERWRITE THE COST OF ADMINISTERING ALL SECTION 8 ACTIVITIES AND SHOULD APPLY TO BOTH SECTION 8 CERTIFICATES AND VOUCHERS. PHA/DA ALSO RECOMMENDS THAT YOU CONTINUE YOUR EFFORT TO ENSURE THAT ALL INDIVIDUALS AND FAMILIES ARE PAYING THEIR FAIR SHARE OF RENT IN PUBLIC HOUSING ACCOMMODATIONS. ONE METHOD OF ALLOWING US TO ASSURE THAT THE LEVEL OF BENEFITS PROVIDED UNDER THESE PROGRAMS IS PROPER IS TO REQUIRE THAT AN APPLICANT OR PARTICIPANT DISCLOSE HIS OR HER SOCIAL SECURITY NUMBER OR EMPLOYEE IDENTIFICATION NUMBER. THIS DISCLOSURE WOULD GIVE US A BETTER OPPORTUNITY TO PREVENT FRAUD AND ABUSE OF THE PROGRAM. WE ENCOURAGE YOU TO CONSIDER MAKING PUBLIC HOUSING AUTHORITIES ELIGIBLE FOR FUNDS AUTHORIZED UNDER YOUR SECTION 202 PROGRAM FOR ELDERLY RESIDENTS. PUBLIC HOUSING AUTHORITIES ACROSS THE NATION HAVE EXHIBITED FOR MANY YEARS NOT ONLY THEIR CONCERN FOR OUR ELDERLY CITIZENS BUT THEIR EXPERT MANAGEMENT ABILITIES IN PROVIDING HOUSING AND SUPPORT SERVICES FOR THOSE WHO HAVE CONTRIBUTED SO MUCH OF THEIR LIFE AND ENERGIES TO OUR COMMUNITIES. WE ALSO URGE THAT PUBLIC HOUSING AUTHORITIES BE CONSIDERED ELIGIBLE FOR FUNDS AUTHORIZED UNDER PROGRAMS FOR THE HOMELESS. DOCUMENTED EVIDENCE FROM VARIOUS SOURCES SUPPORTS THE POSITION THAT THE NUMBER OF HOMELESS INDIVIDUALS AND FAMILIES HAS BEEN STEADLY INCREASING FOR THE PAST SEVERAL YEARS. BESIDES THOSE WHO CAN BE READILY COUNTED AS HOMELESS BECAUSE THEY ARE ON THE STREETS OR IN HOUSING SHELTERS DESIGNED FOR THE HOMELESS WE ARE FACED WITH AN ADDITIONAL PROBLEM. A SUBSTANTIAL NUMBER OF FAMILIES THROUGHOUT THIS NATION ARE DOUBLING UP IN OUR PUBLIC HOUSING UNITS AND ACTUALLY SHOULD BE CLASSIFIED AS HOMELESS. PUBLIC HOUSING AUTHORITIES WOULD APPRECIATE THE OPPORTUNITY OF RECEIVING ADDITIONAL FUNDING WHICH ALLOWS US TO CONTINUE TO WORK WITH THIS NEEDY GROUP OF PEOPLE. PHA/DA HAD FOUND THAT THERE IS A DISPARITY IN THE AMOUNT OF RENT CHARGED THE WORKING POOR AS COMPARED TO THE SOCIAL SERVICE RECIPIENT.

IN THE CASE OF THE WORKING PERSON WE BASE THE PERCENTAGE ON GROSS INCOME. WITH THE SOCIAL SERVICE RECIPIENT WE BASE IT ON NET INCOME. TO ELIMINATE THAT DISPARITY PHA/DA RECOMMENDS A FLAT MINIMUM RENT FOR SOCIAL SERVICE RECIPIENTS. THIS MINIMUM RENT SHOULD BE 30 PERCENT OF THE LOCAL FAIR MARKET RENT OR THE SHELTER AND UTILITY ALLOCATION AS DEFINED BY THE SOCIAL SERVICE IN EACH STATE, WHICH EVER IS GREATER. WE ALSO RECOMMEND THAT A CEILING RENT OR MAXIMUM RENT BE ESTABLISHED AT THE FAIR MARKET RENT IN EACH COMMUNITY TO ALLOW US TO MAINTAIN ECONOMIC BALANCE IN OUR DEVELOPMENTS. WE NEED THE ECONOMIC BALANCE AND A STABLE TENANT POPULATION TO GREATLY IMPROVE THE SOCIAL AND ECONOMIC WELFARE OF THE RESIDENTS OF OUR NEIGHBORHOODS. TO ENABLE US TO CONTINUE TO OPERATE OUR DEVELOPMENTS IN AN EFFICIENT MANNER, WE ENCOURAGE YOU TO REJECT THE "SHIFT OF FUNDS AVAILABILITY" SUGGESTED BY THE ADMINISTRATION FOR PERFORMANCE FUNDING SUBSIDY (PFS) AND COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM FUNDS (CIAP) APPROVED IN THE FY 87 BUDGET. IN ADDITION TO REJECTING "SOFA" WE URGE YOU TO ADEQUATELY FUND PFS AND CIAP FOR THIS FISCAL YEAR. PFS MUST BE FUNDED AT A LEVEL WHICH WILL PROVIDE 100 PERCENT OF ELIGIBLE FUNDING TO EACH HOUSING AUTHORITY WHILE ALSO COMPENSATING FOR THE TREMENDOUS INCREASE IN INSURANCE PREMIUMS THAT ALL HOUSING AUTHORITIES ARE EXPERIENCING. PHA/DA ADVOCATES FUNDING OF $1.5 BILLION. CIAP SHOULD BE FUNDED AT $1.4 BILLION ON A DIRECT GRANT BASIS. THIS WILL ALLOW US TO CONTINUE TO MODERNIZE AND IMPROVE OUR PUBLIC HOUSING PROJECTS. MR. CHAIRMAN, WE SUPPORT THE CONTINUED EFFORTS OF THIS COMMITTEE TO ANALYZE VARYING VIEWPOINTS AS YOU DEVELOP YOUR LEGISLATION. I HAVE TRIED TO PRESENT THE POSITION OF THE PUBLIC HOUSING AUTHORITIY DIRECTORS ASSOCIATION ON A VERY LIMITED NUMBER OF POSITIONS THAT YOU WILL DISCUSS. I AM AVAILABLE TO YOU TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE.

CLPHA

Council of Large Public Housing Authorities

Akron
Alaska
Baltimore
Boston
Buffalo
Brookline, MA
Cambridge
Chicago
Cincinnati
Columbus, OH
Cuyahoga Metro (Cleveland)
Greensboro
Harrisburg
Houston *
Jersey City
Las Vegas
Louisville
Lucas Metro (Toledo)
Milwaukee
Minneapolis
Mobile
Montgomery County, MD
Newark
New Bedford
New Haven
New York City
Oklahoma City
Ohio H. A. Conf
Omaha
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Pittsburgh
Portland, ME
Providence
Rochester
Sacramento
St. Louis
St. Paul
St. Petersburg
San Francisco
Seattle
Washington, D.C.
Wilmington, DE

# TESTIMONY OF ROBERT E. McKAY, EXECUTIVE DIRECTOR OF THE COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES

BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE SENATE COMMITTEE ON BANKING, HOUSING AND
URBAN AFFAIRS

FEBRUARY 17, 1987

509 C Street NE Washington DC 20002 (202) 543-4900
Main Office: Seven Marshall Street Boston Massachusetts 02108 (617) 742-0820

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## I. INTRODUCTION

I am testifying here today on behalf of the Council of Large Public Housing Authorities. CLPHA has 45 member PHAs from Miami to Alaska, and these PHAs together manage over 40% of the conventional public housing stock as well as hundreds of thousands of units of Section 8.

Mr. Chairman and members of the committee and honored guests, the members of CLPHA welcome Senator Cranston's assuming the chair of this Committee at a time when the housing needs of the nation's low-income households are steadily growing. In spite of what is clearly a growing crisis of housing availability and affordability among our low-income families and the elderly, the Reagan Administration has continued to propose substantial cuts in low-income housing assistance. No other area has taken cuts the magnitude of those in the housing programs, from over $25 billion in FY '80 to less than $4 billion as proposed in HUD's FY '88 budget.

Public housing and the Section 8 "existing" and "mod rehab" programs are the backbone of what remains of the federal presence in low-income housing. With over 1.34 million units, public housing is the largest national housing program for poor households, and also houses poorer people than any other program.

The average annual income for public housing residents is between $5,000 and $6,000 per year. Almost a million households are on public housing waiting lists in the country, patiently awaiting an opening. In mid-1986, for example, there were more than 13,000 waiting for openings in Baltimore's 17,000 units; 1,700 waiting for Akron's 4,700 units; 44,000 waiting for Chicago's 49,000 units; 2,700 waiting for 2,800 public housing units in Sacramento, CA, and in Greensboro, N.C. 1,200 waiting for 2,200 units; in New York City, the list now stands at 200,000. Public housing is also the most economical, on an annualized per unit basis, of any of the housing programs.

Section 8, the program for leasing apartments in privately owned buildings, is almost as large as the public housing program. The Section 8 program and its moderate rehabilitation component furnish subsidies for just over 1 million households to have comfortable shelter at 30 percent of their incomes, that averaged about $5,800 per year in 1983.

The housing shortage gives us no alternative but to maintain and improve existing public housing, and to provide new units.

Everyone is studying the problem of the homeless without starting from the basic fact that homeless people are homeless because they do not have roofs over their heads -- and this

is so because there is a critical shortage of affordable low-income housing. The homeless cannot be disposed of with bluster about "involving the private sector." Any serious program for dealing with the housing shortage must include a substantial public housing component.

Mr. Chairman, your Committee has invited testimony on two topics in particular. One is the authorizing legislation pending before your Committee. The other is HUD's FY '88 budget proposals.

Turning first to S. 2507, last year's authorizing provisions from the Committee, I would first say that CLPHA has already submitted our detailed technical comments to the Committee in a letter of February 2. I would just like to highlight some of the major issues raised in that letter.

## II. LIMITATIONS ON PUBLIC HOUSING DEVELOPMENT

First, CLPHA strongly opposes the proposed limitations on the public housing development program. We recognize that there are areas of the country where new development of public housing is not needed, particularly areas where: (a) vacancy rates in standard rental housing are high; and (b) adequate rental assistance is available from HUD to assist low-income households in affording those units. Where is the latter true, though? Use of the public housing development program for new construction, acquisition with major rehabilitation, or redevelopment of seriously deteriorated older public housing projects is still the best and most cost effective way to provide housing in many areas of the country, especially where the housing market is tight and vacancy rates are low. In these housing markets a "cheap fix" using HUD's proposed voucher program is never going to be an adequate answer. We have given CLPHA's comments on last year's contemplated "development limitations" amendments to staff. Those amendments appear to us to be primarily an effort to kill what's left of the development program rather than a way to improve existing public housing. The vacant or deteriorated units often remain so only because modernization funding is inadequate and for no other reason. The fact that a Housing Authority may have many units in need of modernization does not mean that there aren't also substantial needs for additional units in that community. Before these amendments are adopted, there should at least be hearings on the amendments to examine the implications for housing authorities and the needy low-income client groups throughout the nation, and to examine the circumstances in these various communities.

## III. SALE OF PUBLIC HOUSING

Second, we would like to point out that various statutory provisions for PHAs to sell public housing to the residents have been in effect for many years. We don't believe they need expansion at this time. To move ahead while the HUD Public Housing Homeownership Demonstration is in progress, especially since that Demonstration seems to be encountering many difficulties, and without information about the impact upon the residents or the tenant concerns, seems to be a major mistake. Instead, we urge the Committee to await the results of the HUD Demonstration. We also question the desirability of giving very large write-downs to individual tenant households, in support of their purchasing their units, while there are so many other households on the waiting lists in need of those units. If the Congress would like to assist low-income public housing residents to become homeowners, which is indeed a fine goal, we would encourage you to provide a program that would provide shallower and more equitable subsidies to such households to purchase private housing units, thereby enabling them to move "up and out" of public housing and making the public housing units available to other low-income households.

## IV. COMPREHENSIVE GRANTS

Finally, we have been baffled at the attempts to terminate the CIAP program and replace it with a new system of so-called "comprehensive grants" before the results are out on the largest study of public housing modernization needs that has ever been undertaken. This study, funded at a cost of $4.5 million to the federal government, was supposed to provide a national modernization needs estimate by no later than the Spring of 1986 (a date that had been extended many times prior to that), but still has produced no results. Any new system of allocating modernization funding should be needs-based, and it's clear that we don't yet have the long-awaited results of the Abt Study. We hope that the study indeed will be satisfactorily completed in such a way that its results can be used for that purpose, but the delay gives us serious reason for concern.

Meanwhile, we urge that Congress allow CIAP to stand - it's a reasonably workable, needs-oriented system.

Now let me very briefly respond to the Committee's request concerning HUD's FY '88 budget request.

Mr. Chairman, I am also attaching some detailed comments on HUD's FY '88 budget request to this testimony, a memo from CLPHA "To Friends of Public Housing", 1/27/87.

The President's proposals are shocking in that once again, the Administration is proposing to rewrite history and not spend what Congress has already appropriated for the current FY '87. Although the deferral process has been struck down by the Courts, HUD seems to be trying to achieve the same end through its proposed "Shifts in Funding Availability" (SOFAs) of money appropriated by Congress for FY '87 into FY '88. Mr. Chairman, how many times does Congress have to appropriate this money in order to make HUD spend it? Why do we all have to waste our time dealing with HUD's repeated attempt to fly in the face of previously clearly expressed Congressional actions, in this case the FY '87 Appropriations Act? In CLPHA's opinion, the HUD-proposed "SOFAs" for operating subsidies and modernization are only one more part of this Administration's continually expressed hostility toward maintaining a decent public housing program for this nation's low-income tenants. We assume this Committee is not going to entertain these recommendations, and we hope that the Committee will tell the Secretary of HUD just that.

HUD's continual playing with these numbers results in an immense waste of time, money and effort within the public housing program. The PHAs' FY '87 modernization applications are due to HUD in mid-March, yet HUD has not yet released to the Regional and Field Offices figures about how much money each office will have to allocate this year. Without such figures, individual

PHAs find it very difficult to know at what scale to submit their applications. HUD seems to be delaying the release of these numbers in hopes that Congress will approve the proposed SOFAs.

In terms of the amounts HUD is requesting for FY '88 operating subsidies, we must note that HUD has once again totally ignored the fact that its Allowable Expense Level (AEL) for Housing Authorities seriously underfunds the PHAs' liability and property insurance costs. CLPHA - and the Appropriations Committees - have pointed out to HUD that the present methodology for calculating the AEL relies upon inflation indices which explicitly exclude insurance costs, yet HUD hasn't made any attempt to correct this obvious error. What happens as a result? PHAs must either "go bare" on their critical insurance needs, or obtain such insurance only by scavenging other areas of their operations such as maintenance -- a practice which only drives up their future modernization needs. Insurance should be broken out of the AEL and made a separate cost category.

For all of HUD's crocodile tears about wanting to preserve the existing public housing stock (for example, when HUD wants to cut the development program), HUD's failure to provide adequate operating funds, using correctly calculated insurance costs, its indifference to the resulting shortfall in maintenance funds, and its proposed postponement in the use of already-appropriated modernization funds prove just the opposite.

Finally, CLPHA notes that the Administration has constantly sought to eliminate any funds for development. The FY '88 budget request calls for no new public housing development funds, and begins to phase out the "202" program for the elderly. It makes only token gestures toward the problems of the homeless.

As I have mentioned earlier in this testimony, the PHAs' waiting lists are swelling. The public concern for the homeless is clearly growing. The Congress seems anxious to act. But there is no "quick fix." Eventually, it will need to be recognized that the problems of "homelessness" are directly related to the lack of availability of adequate low-rent housing. We ask that Congress face this issue directly by putting the public housing development program back on track once again. Otherwise some of these gestures seem temporary and incomplete.

We heartily endorse, and thank the Committee and its excellent staff director, for the provisions in S. 2507 (a) which would restore the administrative fees for the certificate and voucher programs to levels adequate for effective administration; (b) which would keep fair market rents at current, market levels; (c) which would otherwise protect the successful section 8 certificate program.

We look forward to your progressive leadership, Mr. Chairman. Thank you.

Attachment:

Friends of Public Housing

CLPHA
Council of Large Public Housing Authorities

Akron
Alaska
Baltimore
Boston
Buffalo
Brookline, MA
Cambridge
Chicago
Cincinnati
Columbus, OH
Cuyahoga Metro (Cleveland)
Greensboro
Harrisburg
Houston
Jersey City
Las Vegas
Louisville
Lucas Metro (Toledo)
Milwaukee
Minneapolis
Mobile
Montgomery County, MD
Newark
New Bedford
New Haven
New York City
Oklahoma City
Ohio H. A. Conf.
Omaha
Philadelphia
Pittsburgh
Portland, ME
Providence
Rochester
Sacramento
St. Louis
St. Paul
St. Petersburg
San Francisco
Seattle
Washington, D.C.
Wilmington, DE

January 27, 1987

TO FRIENDS OF PUBLIC HOUSING

## PUBLIC HOUSING NEEDS IN FY '88

CLPHA urges the following funding levels for operating subsidies, modernization and development/major reconstruction, as well as an important new tenant program:

| | | |
|---|---|---|
| A. | Operating Subsidies | $1.7 billion |
| B. | CIAP (Modernization) | 1.75 billion |
| C. | Development/Major Reconstruction | 350 million |
| D. | Tenant Literacy & Job Skills | 50 million |

### A. Operating Subsidy $1.7 billion

CLPHA's current estimate, using the Performance Funding System (PFS) and based mainly upon HUD figures, is $1.7 billion, which includes $150 million for FY '87 insurance cost increases. HUD has refused to recognize these costs in the PFS, despite Congressional directions to do so in Appropriations Committee Reports for FY '86 and FY '87. As a result of HUD's stonewalling, housing authorities have had to shift over $250 million from maintenance and other basic services.

Congress should reject the proposal in HUD's FY '88 budget for a "shift of fund availability" of $85.3 million in operating subsidies appropriations from FY '87 to FY '88. This "sofa" seeks to undercut the direction of the Conference Report to the FY '87 Appropriations for HUD to pay excess FY '87 operating subsidies to PHAs to compensate for the uncovered insurance costs, described above. The tactic - also called in the Budget a "negative supplemental appropriation" - is an effort to end run the now unconstitutional deferral process.

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The funds available in FY '87 (appropriations and carry-over) is $1.523 billion; the increase for FY '88 request is due mainly to a 1% increase in the national number of units and a 3% inflation estimate. The HUD '88 budget proposes $1.46 billion.

[Background: By statute, public housing rents are set at 30% of tenant income and most tenants must have incomes less than 50% of median: thus, PHAs cannot "raise" rents to meet increased expenses. Since rents yield only slightly more than 50% of total operating costs, public housing is totally dependent on receiving full PFS operating subsidies to function and PFS must reflect true costs, such as recent dramatic insurance increases of 400% to 1000%. Moreover, since approximately 40% of total operating expenses must be paid for utilities, the operating subsidy assumes an enormous role in maintaining and safeguarding projects. Operating subsidies are in Budget Account 600, Income Security, and the Appropriations Account known as "Payments for the Operation of Low-Income Housing Projects". An explanation of the Performance Funding System is in CLPHA's Public Housing Today.]

### B. Comprehensive Improvement Assistance Program (a/k/a CIAP or Modernization) $1.75 Billion

CIAP funds the renovation of existing public housing. The FY '87 appropriation of $1.5 billion was an increase from the average appropriation of the five prior years. The increase was made, according to the House Appropriations Committee, to anticipate a forthcoming Congressionally-mandated national assessment of the public housing modernization needs that "is expected . . . [to] recommend substantial increases in public housing modernization funding". CLPHA urges an increase for FY '88 to maintain the stepping-up in level, especially in view of the widespread desire expressed in the last session by conservatives and liberals alike, to increase housing supply by restoring vacant units and upgrading aged projects. This was the first appropriation made as a direct capital grant, rather than under the former method of long-term financing which involved greater budget authority.

Also, reject HUD's "sofa", i.e., its proposal for a "shift of fund availability" of $400 million of the $1.4 billion '87 appropriation into FY '88. HUD would lower FY '87 and FY '88 to $1 billion each - a 30% cuts! This "shift", is contrary to Congress' desire for greater modernization and gainsays HUD's frequent protestation that it seeks to improve public housing, and end vacancies.

[Background: CIAP provides the only federal funds to upgrade projects in this 50-year old program. Unlike federally subsidized housing in the Section 202, FmHA 515 and Section 8 projects, public housing must seek its appropriation for capital improvements each year. These other deep subsidy federal programs have a built-in capital reserve in the subsidy system. Basically, their rents are set at an economic level which is adequate to produce capital reserves; that rent is then subsidized; public housing rent is set in the first instance at an affordable level and the operating subsidy does not provide a capital reserve.

Congress' six year support of CIAP has resulted in steady discernable improvement in the nation's public housing stock; units are restored to usefulness, freed of lead paint and other toxic hazards, made energy efficient and generally brought into compliance with current modest standards.

HUD at times claims to Congress that PHAs have unused funds for modernization; with the possible exception of a few authorities, this claim is unfounded; delays in CIAP come from HUD's efforts to defer, cut and shift dollars and alter standards.

The annual CIAP appropriation when measured against the $70 billion replacement value of public housing covers depreciation at levels significantly less than those observed in private and other government assisted apartment operations.]

C. Development/Major Reconstruction $350 million

This funding level - now in capital grants, rather than long-term financing - would add approximately 5200 new or substantially rehabilitated units - the approximate annual level over the past 4 years. HUD, of course, proposes no funds; in FY '87, the new appropriations are $200 million plus carry-over and recaptures estimated at $217 million, for a total of $417 million.

These "development" monies can also be used to restore vacant units in existing, obsolete public housing projects, where reconstruction costs exceed normal modernization limits. (This process is especially valuable because it utilizes land that already has hard-to-come-by approval for subsidized housing. The proposed housing Authorization act of 1987 (H.R.4) would limit reconstruction to 20% of the development appropriation.)

The demand for public housing is soaring: (a) waiting lists are at record highs - nationally an estimated 1 million vs. 1.3 million units; (b) many major PHAs have stopped taking applications; (c) several thousand new units are needed each year just to replace units that HUD estimates will be demolished or sold off; (d) private rentals open to section 8 certificates and vouchers are scant or non-existent in many areas; (e) the homeless multiply.

[NOTE: H.R.4, the "Housing and Community Development Act of 1987", introduced January 6, 1987 by House Banking Subcommittee Chairman Gonzalez, provides funding for 10,000 public housing units; CLPHA welcomes this level, but, doubts appropriations for them and, in any event, urges a partial shift to increase CIAP levels to $1.75 billion or better.]

D. Tenant Literacy, Job Skills and Support $50 million

CLPHA members see a need to aid the increasing proportion of young single-parent and teenager households among their tenants to get jobs. Many PHAs have established or participated in helpful programs. (See, CLPHA's Report "New Directions in Public Housing", June, 1986; attached Washington Post editorial, "Up and Out of Public Assistance", 1/10/87; CLPHA's "Public Housing Today".) Successful experiences should be expanded into a $50 million demonstration program for literacy/computation and job skills training, aimed at youth - young parents and teenagers. The funds would be provided to interested PHAs: (a) to purchase the desired services from existing providers; (b) to hire a small professional and tenant staff to identify, enlist, encourage and support tenants in the literacy-job skills training; (c) to hire tenants or existing providers for appropriate child or dependent care to enable tenants to participate in the training.

The effort will focus on literacy, computation, basic job skills, and job hunting, and will make maximum use of PHA facilities and advantages of the on-site public housing community. Appropriations should come from labor-health-human services-educations accounts.

A bill for co-sponsorship will be offered; please contact G. Cavanaugh or Nancy Bernstine if you are interested, at 543-4900.

PLEASE NOTE:

- CLPHA meetings on Capitol Hill February 26-27, 1987; mark your calendar.
- Informative items from the New York Times and the Washington Post attached.
- CLPHA review of 1987 Housing Authorization Bill forthcoming; CLPHA comments on S.183, Senator Dixon's reintroduction of his version of the tenant/management amendment offered last year available upon request.

Thank you.

Gordon Cavanaugh

GC/cb
Attachments

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The Washington Post

AN INDEPENDENT NEWSPAPER

# Up and Out of Public Assistance

IN CITIES across the country, waiting lists for public housing continue to grow—up to 44,000 in Chicago—and the federal government is not about to embark on an expensive new course in providing housing funds. That seems to leave it up to local government to spark some movement up and out of public assistance. A report from the Council of Large Public Housing Authorities offers a long list of worthy ideas.

In Buffalo, N.Y., and Greensboro, N.C., officials have opened job application banks where private employers recruit public housing tenants. One Greensboro hotel now gets most of its workers from public housing projects. Jersey City is paying a local group to teach public housing tenants the marketable skill of home-health aide training. The District has been involved in hiring some tenants to give them training in housing maintenance; that can be expanded. In some cities, tenants learn under the supervision of skilled union workers. Procter and Gamble funds 100 job-training slots in Cincinnati. The Private Industry Council does the same in Akron. In Cambridge, the Work Force Program provides job opportunities for public-housing teen-agers with trial work experience and pairs teens with mentors who take them on the job to describe their work. Akron has also started a program to allow 50 welfare mothers to improve their employment chances by finishing high school or attending college with guaranteed day-care services.

Early educational help that sets the tone for adult success would also be useful. In Houston, schoolteachers receive extra pay for using computers at public-housing complexes to help third- to fifth-grade students improve their reading and writing. But not all of the initiative has to come from schools or local governments. In Richmond, a black women's group has "adopted" a public-housing complex. Its members tutor children and take them on field trips. In Cleveland, community leaders are doing this for public housing mothers, offering themselves as role models and advisers.

Surely some of these ideas could be put into effect successfully in the District. Most could be started on a small scale without much money. They offer Mayor Barry some promising ways to attack the cycle of dependence.

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The New York Times

Founded in 1851

ADOLPH S. OCHS, Publisher 1896-1935
ARTHUR HAYS SULZBERGER, Publisher 1935-1961
ORVIL E. DRYFOOS, Publisher 1961-1963

THE NEW YORK TIMES, THURSDAY, JANUARY 22, 1987

## Letters

# Only Those Served by Public Housing Like It

To the Editor:

"Creative Coupons for Poor Renters" (editorial, Jan. 6) says the public housing program has been "dead for years." I'm sure that was a shock to many people, including:

- The 1.34 million families living in public housing across the country: The largest national program for poor households, public housing also shelters poorer people than any other program. The average annual income for public housing residents is between $3,000 and $6,000 a year.
- Almost a million households on public-housing waiting lists in the country, patiently awaiting an opening: In mid-1986, for example, there were more than 13,000 waiting for openings in Baltimore's 17,000 units; 1,700 waiting for Akron's 4,700 units; 44,000 waiting for Chicago's 40,000 units; 2,700 waiting for 2,800 public-housing units in Sacramento, Calif., and in Greensboro, N.C., 1,200 waiting for 2,200 units.
- The officials of 3,274 housing authorities across the country, including some 10,000 locally appointed commissioners, usually unpaid volunteers overseeing public housing.
- Congressional committees and their staffs who annually recommend the appropriation of funds for public housing and who recognize it as the most economical of any of the housing programs.
- And finally, the hundreds of professional housers, members of tenant associations and other advocates who ceaselessly debate housing and other national social-welfare programs.

Section 8, the program for leasing apartments in privately owned buildings, is almost as large as the public housing program. Administered by housing authorities, the Section 8 program and its moderate-rehabilitation component furnish subsidies for 1.32 million households to have comfortable shelter at 30 percent of their incomes, incomes that averaged about $5,000 a year in 1982.

Your embrace of housing vouchers, the new Administration leasing program, was surprising. Its five-year test by Abt Associates of Cambridge, Mass., is only in its second year. The first interim report will be issued soon. It's still an untried program.

I feel confident that the study's findings will be similar to what we've perceived: for recipients, the only important difference between Section 8 and the voucher program is that poor families may pay more than 30 percent of their incomes for rent with vouchers, a hollow difference as you point out. Administrative costs are about the same, despite the Administration's protests. Local budgeting for how many apartments a voucher allocation can buy will be trickier than planning for allocations of Section 8, and conservative budgeting by local administrators would mean far fewer voucher units than the Administration suggests. Finally, vouchers will not lessen the failure rate of certificate holders in the search for suitable apartments, a rate highest for minority-group members.

Impatience about public housing is understandable because, in a few large cities — although not New York — there are examples of seriously deteriorating buildings, especially older, poorly designed family high rises. Nationally, however, public housing is a small community program of sound housing: of 3,274 housing authorities in the country, 2,846 supervise fewer than 500 apartments, often a healthy proportion of the poor of each community. To quote Rachel Bratt of Tufts University, a writer on the subject:

"Numerous surveys have found that public housing tenants generally express satisfaction with their homes. As one team of researchers put it: 'We have, in short, a paradox: Nobody likes public housing except the people who live there and those who want to get in.'"

DANIEL J. WUENSCHEL
President, Council of Large Public Housing Authorities
Washington, Jan. 9, 1987

Brian Cronin

## Vouchers No Answer

To the Editor:

I would like to correct several inconsistencies in your editorial on housing vouchers.

On the one hand, you say the voucher concept is new and that it is appealing. Vouchers are not new. The program was authorized in 1983 and has yet to be proved effective. What is new is that vouchers are slowly becoming the sole housing program for the nation.

On the other hand, you decry the Administration's proposal to permit low-income tenants in the Section 8 program to pay more than 30 percent of their income for rent. Yet vouchers do just that.

Neither the Section 8 program nor the voucher program works in tight rental markets. Tenants eligible for Section 8 must often relinquish their certificates and do without any subsidy at all because they cannot find units below the fair market rent established by the Department of Housing and Urban Development or because they face discrimination. Tenants with vouchers may indeed find units, but will pay greater percentages of their limited incomes, especially in the later years of tenancy.

The problem is that the fair market rents are too low in many regions and that the supply of affordable housing is inadequate. Vouchers as they are now designed, do not deserve support.

ROBERTA L. YOUMANS
Government Programs Advocate
National Housing Law Project
Washington, Jan. 8, 1987

Senator **Cranston**. Several of you have already anticipated the questions that I want to ask, but do any of you have anything to add on the point of the administration's proposals, any part of them that you feel are important for us to include in the legislation we are going to be working on, beyond what has already been stated?

### MORE HOMELESSNESS

If not, do you have any nutshell description of what would occur if we adopted all the administation's proposals, in terms of impact upon the people that you are representing?

Mr. **Zigas**. More homelessness.

Senator **Cranston**. More homelessness.

Mr. **Zigas**. If that is what you are for, take their budget.

Senator **Cranston**. Finally, let me say, again, that S. 2507 will be sort of the basis of our draft for working in the committee, and we would like in writing from you any suggestions you have, within 1 week, on what you would add, subtract or revise, insofar as that legislation is concerned.

Senator Graham, I am delighted that you are here. Do you have any comments or questions?

Senator **Graham**. Thank you, Mr. Chairman.

I have been interested in the issue of housing from the perspective of the states, having been involved with the development of our State Housing Finance Agency.

One concern that I have is, do we have, as a Nation, a sense of where we want to be 10 or 20 years from now, in terms of housing our people? I have a sense, from my State, and from what I have been able to observe nationally, that we are slipping further behind, in terms of our Nation's goal of adequately housing our people. It would be helpful to me, if we could have an articulation of what do you think our year 2000 goals should be in terms of housing and then how do the various specific tactial initiatives, whether they be through the more traditional programs, State or local-based programs, new partnerships between Government and private sector, what do they contribute towards the attainment of that goal.

Mr. **Duvernay**. I would think, Senator Graham, that all we have to do to reach what would be adequate goals in the year 2000, would be to go back to those goals that were set in 1949. I think the efforts of States in the past several years, including your State of Florida, to utilize every tool that was there, whether that was the utilization of tax-exempt bonding in conjunction with direct appropriations from CDBG and UDAG, to fund those adequately, understanding, obviously, that we have a deficit to reduce in the country and that we do not have all the money in the world to correct our problems, but I think utilizing shallow subsidy programs like the HODAG Program, in connnection with other tools, and taking a look again at the provisions of tax reform that have been negative to housing and allow States that have been at the forefront, the tools to work with their local governments and with their private sectors and really make that partnership work.

I don't think there is anything magical or new. It is just realizing what we have known over the past several years and making sure the tools are there to do it.

Mr. ZIGAS. I would just comment that I think it is important to note that in housing there is a tremendous inequity in the total spending that goes out from the Federal Government for solving different housing problems. At the moment, there's more than four times as much money being spent to foster homeownership, particularly among those with higher incomes than there is to foster adequate housing of any kind to people of lower income. That is principally because we provide incentives to the higher income homeowners through the tax system, one of the few major tax incentives that survived tax reform last year unscathed.

We go to great lengths to ensure people are going to have not just one home but two homes or three homes, if they so desire and receive Federal assistance through mortgage deductions for that purpose, and yet we keep stumbling on the problem of, it costs too much to house our low-income citizens.

### INEQUITY OF FUNDING FOR LOW-INCOME HOUSING

I think a major decision has to be made by the Congress that whether or not the kind of money we spend on homeownership is justified, it is completely indefensible to only be spending 25 percent as much to house the very lowest income people in the Nation. I think some of the testimony you have gotten here today shows tenants in low-income public housing and section 8 are people with incomes generally in the $5,000 to $7,000 a year range, which is incredibly low income in today's economy. Many of these people are at that income, and they are working to earn that kind of income.

It is a scandal to look at the whole issue and not bring that perspective to its center, and I would urge that as we look to what we want to do in the year 2000, we should take to heart Senator Heinz' comments earlier that the home building industry seems to be doing OK at the moment, and in spite of all that, we see homelessness increasing. We see rent burdens increasing. We see the quality of housing in the rental stock declining.

There is not the direct connection any of us would like to be able to say there is between the health of the private sector and the development of homeownership opportunity and the way the rest of the population gets its housing. And I think we have to really address it head on. There is a Government responsibility here. It should involve State and local governments but cannot rely exclusively on that, because none of those States are going to have the resources to cope with this problem, and they are not all going to cope with it the same way.

A citizen should not have to rely on where he or she lives to assure their right to a decent, safe, and sanitary house.

Mr. MCHUGH. Senator Graham.

Senator GRAHAM. Mr. McHugh, did you have a comment?

Mr. MCHUGH. Yes. Senator, and in response to your question, I will send to you under separate cover, NAHRO's issue paper, "Housing Needs to the Year 2000," which happens to respond to your specific question.

[The following information was subsequently filed for the record:]

# HOUSING NEEDS TO THE YEAR 2000
## Problems and Assistance
## for America's Poor

by
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The Urban Institute

Prepared for the National Association of
Housing and Redevelopment Officials

NAHRO

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## ACKNOWLEDGEMENTS

This paper would never have been completed without the help of Spencer Johnson, a summer intern at The Urban Institute who provided excellent research assistance.

Thanks also to Mary Nenno, Sandra Newman, Ann Schnare, Ray Struyk, and James C. Turner for their thoughtful advice and comments on various drafts.

Errors and ommissions are, of course, the responsibility of the author, and opinions expressed in this paper do not reflect the views of The Urban Institute or the National Association of Housing and Redevelopment Officials.

## 1. INTRODUCTION

More than one quarter of American households today are unable to obtain adequate housing at affordable prices; they live in physically deficient dwellings, are overcrowded, or spend an unreasonable share of their income for housing. Low-cost rental housing for families with children is scarce, particularly in central cities. Dwelling units suitable for frail elderly people or for people with mental or physical handicaps are also in short supply, so that many of these individuals must forego the opportunity to live independently.

Recent increases in the number of homeless people in American cities serve as a frightening symptom of housing deficits. An increasing number of families and young people have joined the homeless population, and evidence suggests that significant numbers of poor people are becoming homeless not because they are mentally disturbed or because they are drug addicts or alcoholics, but simply because they cannot find affordable housing.

Despite the severity of housing problems, particularly among the poor, federal rent subsidies serve fewer than 20 percent of those with very low incomes. Thus, the housing needs of most poor households go unmet. The gap between housing needs and housing assistance can only be expected to widen, given recent trends. By the end of this century, our population will grow to over 106 million households. In the absence of substantial increases in assistance levels, as many as 18 million of these households will be poor and will experience problems of housing adequacy or affordability -- an increase of 3 to 5 million over current levels. Moreover, an increasing share of those in need of housing assistance will be female headed families and frail elderly people, groups not satisfactorily served by current programs.

This paper explores the current and future housing needs of American households, focusing in particular on the problems of those with limited incomes. What are the characteristics of these households? How many are there? How are their characteristics and numbers changing? What housing problems do they confront today? Can the nation's housing stock respond to their needs in the years ahead? What types of remedies could be tailored to address effectively the housing needs of poor Americans today and in the future?

## 2. CURRENT HOUSING NEEDS

We begin with a snapshot of current housing needs in the United States, describing the incidence of housing problems, the income and demographic characteristics of those living in deficient housing, and the level and distribution of federal housing assistance. Exhibit 1 documents the incidence of three serious housing problems -- physical inadequacy, overcrowding, and excessive cost burden.* As of 1983, over 24 million households experienced one or more of these problems. The most common housing problem is excessive expense, with 17 percent of all households spending a disproportionate share of their incomes to obtain adequate housing.

EXHIBIT 1
INCIDENCE OF HOUSING PROBLEMS
(1000s)

| | | |
|---|---|---|
| Total Households | 84,842 | -- |
| Households with Problems | 24,216 | 28.54% |
| Physical Inadequacy | 7,561 | 8.91% |
| Crowding | 2,230 | 2.63% |
| Excessive Cost | 14,425 | 17.00% |

Note: Households designated as crowded live in physically adequate units; households with excessive costs live in physically adequate units and are not crowded.

Source: Tabulations of 1983 Annual Housing Survey data, reported in Irby(1986).

### Household Incomes and Housing Needs

Not surprisingly, most households with housing problems are poor. HUD defines households with incomes less than half of the local median as "very low income", with incomes between 50 and 80 percent of median designated as "lower", and incomes between 80 and 120 percent of median designated as "moderate".** Exhibit 2 shows that very low income households account for over 60 percent of those with housing problems, and that almost two thirds of all very low income households confront one or more problems. High cost burdens are particularly prevalent among the poor; in 1981, amost half of all very low income households paid an excessive share of their incomes for housing.

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* Inadequate units have plumbing, maintenance, public hall, heating, electical, or sewage system defects. Crowded units have more than one person per room. Housing costs over 30% of income are considered excessive, except for owners making mortgage payments, for whom costs over 40% are considered excessive. Irby(1986).

** The official poverty line is considerably lower than HUD's very low income definition. In 1978, 50 percent of median income was about one third higher than the poverty line, and 80 percent of median was over twice as high as the poverty line (Newman, Struyk, Manson, 1982).

The incidence of housing problems is much smaller for households with incomes higher than 50 percent of median. Even among lower income households (50 to 80 percent of median), slightly less than one third experience housing problems, compared to about two thirds among very low income households. Thus, the burdens of deficient, crowded, and excessively expensive housing fall disproportionately on the shoulders of the poorest households. Still, in 1983 almost 10 million households with incomes higher than 50 percent of median confronted one or more housing problems.

The conditions of poverty and housing deprivation are closely linked to household tenure. Homeownership has become the hallmark of a family's success and stability in the U.S., and the vast majority of affluent households (85 percent of those with incomes over $30,000) own their homes. Most low income households cannot afford to become homeowners, so the majority of renters are poor. In part, this explains why the incidence of housing problems is three times higher among renters than among owners, as shown in Exhibit 3.

EXHIBIT 3
HOUSING PROBLEMS BY HOUSEHOLD TENURE
(1000s)

| | Owners | % with Problems | Renters | % with Problems |
|---|---|---|---|---|
| Total Households | 54,890 | -- | 29,952 | -- |
| Households with Problems | 9,035 | 16.46% | 15,181 | 50.68% |
| Physical Inadequacy | 3,420 | 6.23% | 4,141 | 13.83% |
| Crowding | 1,034 | 1.88% | 1,196 | 3.99% |
| Excessive Cost | 4,581 | 8.35% | 9,844 | 32.87% |
| | Owners | % with Problems | Renters | % with Problems |
| Very Low Inc Households | 10,073 | -- | 12,870 | -- |
| Households with Problems | 4,863 | 48.28% | 10,236 | 79.53% |
| Physical Inadequacy | 1,410 | 14.00% | 2,395 | 18.61% |
| Crowding | 234 | 2.32% | 692 | 5.38% |
| Excessive Cost | 3,219 | 31.96% | 7,149 | 55.55% |

Note: Households designated as crowded live in physically adequate units; households with excessive costs live in physically adequate units and are not crowded. Very low income households have incomes below 50 percent of area median.
Source: Tabulations of 1983 AHS data, reported in Irby(1986).

EXHIBIT 2
HOUSING PROBLEMS AMONG LOW INCOME HOUSEHOLDS
(1000s)

| | All HHs | % Lower Income | % Very Low Income | Lower Inc HHs | % with Problems | Very Low Inc HHs | % with Problems |
|---|---|---|---|---|---|---|---|
| Total Households | 84,842 | 18.22% | 27.04% | 15,455 | -- | 22,943 | -- |
| Households with Problems | 24,216 | 19.92% | 62.35% | 4,823 | 31.21% | 15,099 | 65.81% |
| Physical Inadequacy | 7,561 | 20.51% | 50.32% | 1,551 | 10.04% | 3,805 | 16.58% |
| Crowding | 2,230 | 22.56% | 41.52% | 503 | 3.25% | 926 | 4.04% |
| Excessive Cost | 14,425 | 19.20% | 71.88% | 2,769 | 17.92% | 10,368 | 45.19% |

Notes: Households designated as crowded live in physically adequate units; households with excessive costs live in physically adequate units and are not crowded.

Lower income households have incomes between 50 and 80 percent of area median.
Very low income households have incomes below 50 percent of area median.

Source: Tabulations of 1983 Annual Housing Survey data, reported in Irby(1986).

Even among very low income households, however, homeowners experience fewer housing problems than do renters. Almost eight out of ten very low income renters face housing problems, with over half paying a disproportionate share of their incomes for rent. Moreover, the nation's rental housing stock is substantially older than the owner-occupied stock, and is dominated by smaller housing units. Thus, for the majority of poor households, who are relegated to the rental market, housing options are extremely limited.

But homeownership by no means guarantees adequate or affordable housing. Among the very low income households who do own their homes, about half experience housing problems, with about 15 percent living in physically inadequate or overcrowded housing, and about a third paying an excessive cost burden.

To review, the households with the most severe housing problems are those with very low incomes. Most of these households are renters, and it is poor renters who face the highest rates of housing inadequacy, overcrowding, and excessive cost burden. But a sizeable minority of very low income households are owners, and they too face serious housing problems. In all, almost 5 million very low income households live in physically deficient or overcrowded units, and over 10 million pay an excessive cost burden in order to obtain adequate housing.

## Who Needs Housing Assistance?

Clearly, very low income households need assistance to solve their housing problems. But the population of needy households is extremely diverse; minorities, female headed families, elderly and handicapped people, the rural poor, and the homeless all confront very different problems and have different housing needs.

**Minority households** experience particularly high rates of housing problems, as documented in Exhibit 4. Half of all black and hispanic households confronted housing problems in 1983. The high rate of housing problems among minorities is explained in part by their income levels; about 40 percent of hispanic households, and close to half of black households have very low incomes. However, compared to the average for all very low income households, the incidence of housing problems for poor blacks and hispanics is remarkably high. Very low income blacks are particularly likely to live in physically deficient units, while very low income hispanics are particularly likely to be overcrowded. The high incidence of housing problems among minorities, even after accounting for their low incomes, serves as evidence of persistent racial discrimination in U.S. housing markets (HUD, 1980).

**Female headed families** also confront higher than average rates of housing problems, as shown in Exhibit 5. In this case, however, the high incidence of problems is primarily attributable to low incomes. Roughly half of all female headed families have very low incomes, and their rate of housing problems is about average for all very low income households. But female headed households, as well as other low income families, are likely to

EXHIBIT 4
HOUSING PROBLEMS AMONG MINORITY HOUSEHOLDS
(1000s)

|  | Hispanics | % with Problems | Blacks | % with Problems |
|---|---|---|---|---|
| Total Households | 4,626 | -- | 9,167 | -- |
| Households with Problems | 2,381 | 51.47% | 4,712 | 51.40% |
| Physical Inadequacy | 813 | 17.57% | 2,053 | 22.40% |
| Crowding | 536 | 11.59% | 463 | 5.05% |
| Excessive Cost | 1,032 | 22.31% | 2,196 | 23.96% |

|  | Hispanics | % with Problems | Blacks | % with Problems |
|---|---|---|---|---|
| Very Low Inc Households | 1,899 | -- | 4,402 | -- |
| Households with Problems | 1,493 | 78.62% | 3,425 | 77.81% |
| Physical Inadequacy | 451 | 23.75% | 1,313 | 29.83% |
| Crowding | 267 | 14.06% | 237 | 5.38% |
| Excessive Cost | 775 | 40.81% | 1,875 | 42.59% |

EXHIBIT 5
HOUSING PROBLEMS AMONG FEMALE-HEADED AND ELDERLY HOUSEHOLDS
(1000s)

|  | Female-Hd HHs | % with Problems | Elderly HHs | % with Problems |
|---|---|---|---|---|
| Total Households | 23,393 | -- | 17,833 | -- |
| Households with Problems | 10,255 | 43.84% | 4,940 | 27.70% |
| Physical Inadequacy | 2,722 | 11.64% | 1,730 | 9.70% |
| Crowding | 445 | 1.90% | 53 | 0.30% |
| Excessive Cost | 7,088 | 30.30% | 3,157 | 17.70% |

|  | Female-Hd HHs | % with Problems | Elderly HHs | % with Problems |
|---|---|---|---|---|
| Very Low Inc Households | 11,474 | -- | 7,867 | -- |
| Households with Problems | 7,732 | 67.39% | 3,797 | 48.26% |
| Physical Inadequacy | 1,875 | 16.34% | 1,133 | 14.40% |
| Crowding | 306 | 2.67% | 15 | 0.19% |
| Excessive Cost | 5,551 | 48.38% | 2,649 | 33.67% |

Note: Households designated as crowded live in physically adequate units; households with excessive costs live in physically adequate units and are not crowded. Very low income households have incomes below 50 percent of median:
Source: Tabulations of 1983 AHS data, reported in Irby(1986).

to suffer from a scarcity of rental housing that can accommodate children. As illustrated in Exhibit 6, the number of renter households with more than two children substantially exceeds the number of rental housing units with more than two bedrooms. This gap between the supply and demand of large rental units is particularly severe in central cities, where the number of large renter households is more than twice the number of large rental housing units.*

EXHIBIT 6
AVAILABILITY OF LARGE RENTAL HOUSING UNITS
(1000s)

| | Total | Central Cities | Suburbs | Non-Metro |
|---|---|---|---|---|
| Large Units (3+ Bedrooms) | 1,400 | 399 | 634 | 367 |
| Large Renter HHs(3+ Kids) | 2,193 | 925 | 623 | 646 |
| Ratio of Families/Units | 1.57 | 2.32 | 0.98 | 1.76 |

Source: 1983 National Annual Housing Survey, Volume A: General Housing Characteristics.

The incidence of housing problems is relatively low for **elderly households**, even among those with very low incomes. In part, this reflects the fact that elderly households are typically small, and are therefore unlikely to be overcrowded, but it also reflects the fact that a large proportion of the elderly own their houses free and clear, and therefore have relatively small out-of-pocket housing costs.

However, limited housing opportunities discourage many of the elderly from living independently. Elderly people who might be able to maintain their own households if housekeeping, shopping, or emergency medical facilities were available often end up in nursing homes because suitable housing units are not available. Among elderly households who do live independently, about 15 percent appear to need support services or dwelling unit modifications, and estimates indicate that 20 to 25 percent of the elderly people in nursing homes are inappropriately institutionalized (Struyk, 1985).

**Mentally and physically handicapped** individuals face similar problems finding housing that offers essential services and equipment. Because few handicapped people can earn adequate incomes by working, many are poor and highly dependent on outside help. Mentally handicapped individuals usually need regular support or monitoring to help them manage the tasks of everyday life, while physically handicapped people need architecture that is free of barriers to their mobility. Without these extra

services many handicapped must live in institutions. In 1974, superintendents of 130 institutions for the mentally retarded estimated that half of their residents could live on their own if proper care and services existed. For the physically handicapped, it is estimated that more than ten percent of the non-institutionalized population could benefit from reduced architectural barriers. An even large share of those currently in institutions might be able to live on their own if appropriate housing existed (HUD, 1977 and HUD, 1979).

**Rural Americans** who are poor face some of the nation's worst housing conditions. Enormous improvements in the quality of the rural housing stock have been achieved in recent decades, but the share of units lacking complete plumbing is still three and a half times higher in rural areas than in urban areas, and more than one third of all rural dwellings were built before 1940. Poor households living in rural areas are twice as likely to live in severely deficient housing than their urban counterparts. The rural poor are also more likely to own their dwellings, although many of them own mobile homes and rent the sites on which they are located.* Rural poverty, and the associated housing deficiencies are highly concentrated among four distinct groups -- residents of Appalachia and the Ozarks; American Indians, most of whom live on or near reservations; rural blacks in the Southeast; and rural hispanics, about 10 percent of whom are migrant farmworkers (HAC, 1984).

**Homeless people** are often forgotten in the discussion of housing needs for two reasons. First, the data available for measuring U.S. housing deficits are, by their very nature, limited to households who have at least managed to obtain shelter of some kind. People who neither belong to households nor live in institutions are virtually impossible to count, and estimates of the number of homeless people in the U.S. today range from a lower bound of two to three hundred thousand to an upper bound of two to three million. In addition, the homeless population has historically been dominated by single people, often elderly, who are mentally disturbed, alcoholics, and drug addicts -- people whose problems are not particularly amenable to housing solutions. Today, however, the homeless are considerably more heterogeneous, with increasing numbers of young single people and families. Despite the uncertainty about the number of homeless people, there is general agreement that an increasing share of homeless people are very much like other poor people, and that they are homeless primarily because they are poor (GAO, 1985). Thus, increases in the homeless population today should be viewed as a symptom of the severity housing problems confronting the poor.

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* Moreover, in 1980 more than a quarter of the nation's rental housing units were in projects that prohibitted children, NAHB(1986).

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* Mobile homes manufactured before national construction and safety standards were imposed in 1975 are likely to be damaged or dilapidated. More recently, however, mobile homes have been a major source of decent, low-cost housing for rural areas. As of 1980, three quarters of all mobile homes were located in rural areas.

Who Receives Assistance?

Current eligibility standards for federal rent subsidy assistance are based on income rather than on the presence of housing problems. In other words, a very low income household with no housing problems is technically eligible for assistance, while a moderate income household with multiple problems is not. Exhibit 7 contrasts the characteristics of the population currently eligible for federal housing assistance with the characteristics of more affluent groups. It should come as no surprise that single parent families and elderly households are far more prevalent among very low (and lower) income households than among more affluent households. In fact, these two household types account for nearly half of all very low income households. Traditional two-parent families are relatively scarce among very low income households, but are considerably more prevalent in the lower income category.

EXHIBIT 7
HOUSEHOLD COMPOSITION BY INCOME CLASS

| | Very Low Inc | Lower Inc | Mod Inc | All Households |
|---|---|---|---|---|
| Non-Elderly | | | | |
| Married | 27% | 42% | 54% | 51% |
| Sngl-Prnt Families | 14% | 8% | 6% | 7% |
| Single Indivs | 16% | 14% | 15% | 13% |
| Other | 12% | 12% | 9% | 10% |
| Elderly | | | | |
| Married | 9% | 15% | 11% | 10% |
| Single | 22% | 9% | 5% | 9% |

Source: Tabulations of 1983 Annual Housing Survey, reported in NAHB(1986).

The public sector -- at federal, state, and local levels -- has made a substantial commitment toward addressing the nation's housing needs. The largest single housing subsidy is, of course, provided to affluent homeowners through the federal tax system. In addition, many jurisdictions, including the federal government, help low and moderate income households become homeowners through a variety of subsidized mortgage mechanisms. Other programs provide incentives for investment in low-cost rental housing. The lion's share of housing assistance for the poor, is provided by the federal government in the form of rent subsidies. In 1985, about 4 million rental housing units were subsidized under various federal programs.*

For about one in five rent subsidy recipients, assistance takes the form of a certificate or voucher entitling the recipient to a rent supplement when the household occupies a unit from the existing stock of private rental housing. The remaining federally assisted households occupy units built or rehabilitated specifically for low income occupancy. In all, there are about 3.3 million such units, 1.4 million of which are owned by public housing authorities. The remainder are owned by private developers or non-profit organizations that have received federal financing assistance (NAHB, 1986).

Just under 90 percent of federal rent subsidy recipients have very low incomes, with about 10 percent in the lower income category (50 to 80 percent of area median income). This is not surprising, since most federal programs have been explicitly designated for low income participation, and almost none have been available for moderate income households. However, despite the magnitude of federal rent subsidy programs, they serve only a small share of needy households. Exhibit 8 presents estimates of the share of very low income households served by federal rent subsidy programs, and shows that fewer than one in five very low income households receive assistance. Participation rates are highest among single parent families and the elderly, and blacks are more likely to receive federal assistance than are other very low income families.

EXHIBIT 8
RECIPIENTS OF FEDERAL RENT SUBSIDY ASSISTANCE

| | % Receiving Assistance |
|---|---|
| Very Low Inc Households | 16.72% |
| By Household Type: | |
| Husb-Wife Families | 10.21% |
| Single-Parent Families | 31.02% |
| Other Non-Elderly | 7.44% |
| Elderly | 23.68% |
| By Race: | |
| Whites | 15.07% |
| Blacks | 23.14% |
| Hispanics | 11.24% |
| Other | 18.98% |

Source: Tabulations of 1981 Annual Housing Survey and HUD Multifamily Information System data, reported in Burke(1984). Does not include welfare rent allowances.

Almost 40 percent of the households receiving rent subsidy assistance also receive income assistance -- under Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), or General Welfare Assistance. These forms of income assistance serve households at the lowest income levels, and, in principle, they provide for housing needs through a shelter allowance. In some states, the shelter allowance is an explicit component of the assistance payment, while in others, an implicit shelter allowance can be inferred from the way total payment levels are determined. In virtually all states, however, shelter allowances fall far below HUD estimates of the cost of modest rental housing.* Thus, federal income assistance programs do not effectively address the housing needs of recipients.

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* Public Housing, Section 8 (existing, new, substantial rehab, moderate rehab, loan management set-aside, conversions, property disposition, and vouchers), Section 236, Section 515, Section 221(d)(3)BMIR, and Rent Supplement, NAHB(1986).

Clearly, the gap between housing needs and housing assistance is enormous. Over 80 percent of very low income households (almost 20 million households in 1983) receive no housing assistance, and at least two thirds of these unassisted households -- 13 to 15 million households in 1983 -- face problems of physical inadequacy, crowding, or excessive cost. Federal welfare programs provide income assistance to about 6 million of the poorest households, but this assistance is not sufficient to assure decent, affordable housing for recipients.

Moreover, while rent subsidy programs serve about 4 million households, the form of housing assistance available is not always effectively tailored to meet the needs of some groups. For example, a frail elderly or handicapped person cannot benefit from a rent subsidy if no units are available that provide the needed mix of design features and services. In the past, one of the objectives of subsidized housing production programs was to augment the supply of units that the private sector would not otherwise supply. Even so, however, relatively few subsidized units have been built with the special features and services required by handicapped people or the frail elderly.

Finally, the data generally used to document the extent and seriousness of housing problems in the U.S. today are, by their very nature, limited to households who have at least managed to obtain shelter of some kind. But many elderly and handicapped people are prevented from living independently because suitable accomodations are scarce. In addition, the nation's homeless population includes growing numbers of families and individuals who have simply failed in their efforts to obtain housing. Thus, our estimate of 13 to 15 million very low income households with unmet housing needs should be adjusted upward to include the unknown numbers of would-be households who currently live in institutions or who have no housing at all.**

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* Newman and Schnare(1986). Also, the gap between the cost of modest housing and the welfare shelter allowance is larger under AFDC, which serves female headed families, than under SSI, which serves the elderly.

** Not all households with low incomes and/or unmet housing needs would necessarily participate in assistance programs, even if help were available on an entitlement basis. Kingsley and Schlegel(1982).

## 3. THE CHANGING DEMOGRAPHIC PROFILE OF U.S. HOUSEHOLDS

Over the remainder of this century, changes in housing needs will result from the interaction of demographic and income trends with changes in the housing stock. This section and the next focus on these two factors, first describing patterns of population growth and expected trends in the distribution of income, and then focusing on changes in the stock of available housing. By the end of this century the U.S. population should exceed 106 million households, an increase of almost 21 million over the 85 million households in 1983.* This growth -- of roughly 1.4 million additional households per year -- reflects the combination of increases in the number of individuals reaching maturity, and in the rate of household formation.

### Household Growth by Composition and Age

Exhibit 9 presents distributions of households by age and household composition for 1980 and 2000, as well as projected rates of increase for each group. These data reveal seven important trends in the profile of U.S. households:

Single individuals will be the fastest growing household type, their numbers increasing by almost 75 percent. Today, less than one fourth of U.S. households are single individuals; by the end of the century, single individuals will account for almost one third of all households.

Two age groups will contribute to the rapid growth in the number of single individuals -- elderly people over 75 and middle-aged people, between 35 and 55. These are the two fastest growing age groups among household heads, and the share who live alone will more than double.

Among elderly households, the share of "young elderly" (aged 65 to 74) will decline, since the number of "older elderly" (75 years and above) is growing so rapidly. In 1980, only about one third of elderly households were headed by a person 75 or older, but by the end of the century, about half of all elderly households will be "older elderly."

The number of married couples -- with and without children -- will grow slowly. In fact, the number of these traditional families who are under 35 is actually expected to decline. Currently, married couples with children account for almost one third of all households, but by the end of the century only about twelve percent of U.S. households will fit this description.

The number of non husband-wife families with children will grow by almost half. A growing share of these families will be headed by elderly people, but the majority will be headed by women between the ages of 30 and 55.

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* All population projections used in this paper are from the Pitkin and Masnick(1986) middle projection series.

EXHIBIT 9
DISTRIBUTION OF HOUSEHOLDS, 1980-2000
(1000s)

| 1980 Households<br>(84,842) | Age<br>18-24 | Age<br>25-29 | Age<br>30-34 | Age<br>35-44 | Age<br>45-54 | Age<br>55-64 | Age<br>65-74 | Age<br>75+ | Total |
|---|---|---|---|---|---|---|---|---|---|
| Married Couples | | | | | | | | | |
| Children | 1.8% | 4.6% | 6.5% | 10.7% | 5.8% | 1.7% | 0.3% | 0.1% | 31.5% |
| No Children | 1.7% | 2.2% | 1.3% | 1.7% | 5.3% | 8.7% | 6.2% | 2.6% | 29.5% |
| Other Families | | | | | | | | | |
| Children | 0.9% | 1.3% | 1.5% | 2.3% | 1.1% | 0.4% | 0.1% | 0.1% | 7.6% |
| No Children | 0.3% | 0.2% | 0.1% | 0.5% | 1.0% | 1.3% | 1.0% | 0.8% | 5.1% |
| Single Individuals | 2.1% | 2.4% | 1.8% | 1.9% | 2.1% | 3.5% | 4.7% | 4.2% | 22.6% |
| Non-Family Groups | 1.3% | 0.8% | 0.4% | 0.4% | 0.2% | 0.2% | 0.2% | 0.1% | 3.6% |
| Total | 8.0% | 11.4% | 11.6% | 17.4% | 15.6% | 15.8% | 12.5% | 7.7% | 100.0% |

| 2000 Households<br>(106,006) | Age<br>18-24 | Age<br>25-29 | Age<br>30-34 | Age<br>35-44 | Age<br>45-54 | Age<br>55-64 | Age<br>65-74 | Age<br>75+ | Total |
|---|---|---|---|---|---|---|---|---|---|
| Married Couples | | | | | | | | | |
| Children | 0.8% | 2.1% | 4.4% | 11.8% | 5.8% | 1.4% | 0.4% | 0.1% | 26.8% |
| No Children | 0.5% | 0.7% | 0.7% | 2.2% | 6.4% | 6.6% | 5.0% | 3.2% | 25.4% |
| Other Families | | | | | | | | | |
| Children | 0.7% | 1.0% | 1.4% | 3.2% | 1.6% | 0.4% | 0.2% | 0.1% | 8.5% |
| No Children | 0.1% | 0.2% | 0.2 | 0.8% | 1.7% | 1.2% | 0.9% | 1.1% | 6.1% |
| Single Individuals | 1.2% | 2.2% | 2.2% | 4.3% | 4.5% | 4.0% | 4.8% | 6.6% | 29.7% |
| Non-Family Groups | 0.6% | 0.7% | 0.5% | 0.8% | 0.5% | 0.2% | 0.1% | 0.1% | 3.6% |
| Total | 3.9% | 6.8% | 9.3% | 23.1% | 20.5% | 13.8% | 11.4% | 11.2% | 100.0% |

| Percent Change<br>1980-2000 | Age<br>18-24 | Age<br>25-29 | Age<br>30-34 | Age<br>35-44 | Age<br>45-54 | Age<br>55-64 | Age<br>65-74 | Age<br>75+ | Total |
|---|---|---|---|---|---|---|---|---|---|
| Married Couples | | | | | | | | | |
| Children | -39.9% | -40.3% | -11.1% | 45.8% | 32.7% | 4.9% | 45.6% | 163.4% | 12.2% |
| No Children | -59.6% | -54.9% | -22.8% | 73.0% | 58.6% | .02% | 6.7% | 63.1% | 13.3% |
| Other Families | | | | | | | | | |
| Children | -4.7% | 4.0% | 20.8% | 82.9% | 88.0% | 48.4% | 57.6% | 84.2% | 46.2% |
| No Children | -40.9% | 2.3% | 48.7% | 130.0% | 117.0% | 27.3% | 28.2% | 78.3% | 58.2% |
| Single Indivs. | -21.7% | 19.2% | 62.3% | 199.2% | 179.9% | 47.9% | 35.4% | 110.6% | 73.6% |
| Non-Family Groups | -37.9% | 5.2% | 50.3% | 199.3% | 194.2% | 40.8% | 2.2% | 47.4% | 29.5% |
| Total | -35.2% | -21.5% | 5.9% | 75.4% | 73.3% | 15.3% | 20.7% | 90.7% | 32.0% |

Source: Pitkin and Masnick(1986), Table A.

The number of non husband-wife families without children will also experience relatively rapid growth. Most of these households are headed by individuals who are over 45.

The total share of families with children will decline slightly, from almost 40 percent of all households in 1980 to about 35 percent in 2000. Of these families, however, the proportion with both a father and mother present is expected to drop from over 80 percent to about 75 percent. In other words, an increasing share of families with children will be headed by single mothers.

What do these trends imply for the housing sector and for housing assistance needs? First, we can expect significant changes in the types of housing sought. Fewer households will seek the traditional suburban single-family home in which to raise a family, and an increasing share of those who do need room for children will be single mothers, many of whom cannot afford the suburban dream house. Second, dramatic increases in the number of single individuals may boost demand for smaller units, and since many of these individuals will be elderly, the demand for housing with access to supplementary services will expand. Thus, we can anticipate considerable pressure on some segments of the existing housing stock -- smaller units and those offering services for the frail elderly, while other types of housing -- large suburban units designed for affluent families -- may become less desirable. Since over 80 percent of the 1980 to 2000 household growth will occur in metropolitan areas, pressures on the urban housing stock will be particularly severe.

## Changes in the Characteristics of Low Income Households

Housing suppliers will respond reasonably promptly to the changing demands of affluent households, but people with limited incomes may encounter increasing difficulties obtaining the housing they need at prices they can afford. Two of the most rapidly growing segments of the population -- single parent families and elderly individuals -- have historically been over represented among low income households. We know that a large share of female-headed households confront the traditional housing problems of physical inadequacy, crowding, and excessive cost burden. Moreover, both female-headed families and elderly households already have trouble finding suitable housing units. The pressures for housing assistance tailored to the needs of these two groups will become considerably more urgent by the end of the century.

It is extremely difficult to predict with precision how much the size and composition of the low income population will change by the end of this century. We can, however, develop order-of-magnitude estimates, based on the demographic projections presented above and on current rates of low income status. These estimates are presented in Exhibit 10.

### EXHIBIT 10
### VERY LOW INCOME HOUSEHOLDS, 1983 AND 2000
### (1000s)

| | 1983 | 2000 A | 2000 B |
|---|---|---|---|
| Total Households | 84,842 | 106,006 | 106,006 |
| Very Low Income Households | 22,943 | 28,622 | 28,622 |
| Non-Elderly | | | |
| Married | 27% | 21% | 23% |
| Sngl-Prnt Families | 14% | 15% | 17% |
| Single Indivs | 16% | 21% | 23% |
| Other | 12% | 11% | 12% |
| Elderly | | | |
| Married | 9% | 7% | 4% |
| Single | 22% | 25% | 22% |

Note: 2000 A assumes no change in the relative rates of low income status for various household types. 2000 B assumes that the rate of low income status for elderly households declines.

Because HUD's income standard is based on local median incomes, Exhibit 10 assumes that the incidence of very low income status will remain relatively stable. By definition, 50 percent of all households will always fall below local median incomes, but the share with incomes less than half of the local median may vary, depending on how evenly income growth is distributed. Income gains in the late 1970s and early 1980s were sharply skewed toward the most affluent segments of our population (Palmer and Sawhill, 1982); Muller, Soble and Dujak, 1980). To the degree that this trend is sustained, the proportion of households classified as very low income could increase. However, from 1975 and 1983, the share of households with incomes below 50 percent of median fluctuated between 26 and 28 percent, with no evidence of any persistent upward trend. Therefore, we assume that the overall share of households whose incomes fall below 50 percent of area median will remain at its current level -- about 27 percent. This yields a total of about 29 million very low income households in the year 2000, an increase of about 5.7 million over the total for 1983.

Recent trends suggest that a decreasing share of elderly households are poor, while families -- both single-parent and traditional -- may be increasingly likely to have very low incomes.* However, it is difficult to determine how significant these trends are or whether they will persist for the remainder of the century. If we assume that the relative rates of low income status for different household types will remain essentially unchanged, then among very low income households, the share of married couples will decline while the share of single individuals, both elderly and non-elderly will increase. If, on the other hand, we assume that the rate of very low income status continues to decline among the elderly, we can anticipate the same decline in the share of very low income households who are married, an increase in the share of non-elderly singles, and a sizeable increase in the share of single-parent families. In either case, the elderly and single mothers will continue to be over represented among the very low income population, and an ever-increasing share of the elderly will be over 75.

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* Moreover, the concentration of poor households in central cities will probably be exacerbated. Muller,Soble, Dujak(1980).

The increase in non-elderly singles among the poor is significant because households of this type are not eligible for housing assistance, unless they are mentally or physically handicapped. Very little is known about the housing needs of low income singles, or about the types of problems they confront. The increasing size of this household group among the low income population may ultimately lead to a reassessment of their need for housing assistance.

Undocumented Population Growth

Two groups in the U.S. today -- the homeless and illegal immigrants -- appear to be growing rapidly but are likely to undercounted in conventional population projections. We can only guess how many such individuals and families will live in this country by the end of the century, but they are likely to increase the size of the very low income population over our initial estimates, so it is essential that they not be overlooked.

As discussed in the previous section, there is tremendous uncertainty about the number of homeless people living in America's cities. Not surprisingly, there is just as much disagreement about how rapidly the homeless population is growing; estimates of annual increases range from ten percent to almost forty percent. Analysts and service providers cite six basic factors that affect the size of the homeless population:

The unemployment rate;

The availability of community-based facilities for mentally ill people who have been deinstitutionalized;

Increases in personal crises;

The availability of public assistance;

The supply of low-cost housing; and

The incidence of alcohol and drug abuse (GAO, 1985).

Most of these factors are beyond the scope of housing assistance policies, but it is clear that the gap between housing needs and housing assistance can only exacerbate the problem of homelessness in the years ahead.

Illegal aliens are as difficult to count as the homeless. Informed estimates suggest that as many as three to six million illegal aliens may be living in the U.S. today, with 100,000 to 500,000 more entering the country each year (Ashabranner, 1983). The number of illegal immigrants joining our society by the end of the century will, of course, depend on world-wide economic and political developments, as well as on U.S. immigration policy. Regardless of their exact numbers, illegal aliens contribute to the low income population in the metropolitan areas where they are concentrated.* Many are employed in very low-income jobs. They are not eligible for public assistance, and in the absence of affordable rental housing, many will experience serious housing deprivation and crowding, with some ultimately joining the ranks of the homeless.

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* New York, Los Angeles, Chicago, Miami, San Antonio, Newark, San Francisco, San Diego. Ashabranner(1983).

## 4. THE CAPACITY OF THE HOUSING STOCK

Historically, housing markets have responded promptly to the shifting demands and preferences of affluent households, through new construction and conversions. Low income households, however, rely primarily on the existing housing stock, which is not entirely malleable and some of which is retired from use every year. Thus, there is no guarantee of an adequate supply response to changes in the size and composition of the low income population. Since the federal government no longer subsidizes the production of new rental housing, shortages of low cost units may arise in some markets. The incidence of housing problems, and particularly the problem of excessive cost burden, cannot be expected to decline in the years ahead.

This section examines recent and prospective trends in the composition of the existing stock, and concludes with estimates of the number of households likely to be confronting housing problems at the end of the century.

### Additions to the Housing Stock

During the 1970s and early 1980s, new construction primarily served the homeowner market. Exhibit 11 shows that of the approximately 20 million unsubsidized units built between 1970 and 1983, almost two thirds are owner-occupied or vacant for sale. About half of the new residential construction occurred in the suburbs of metropolitan areas, and only about twenty percent of new units are located in central cities.*

Unsubsidized rental housing construction sank to particularly low levels in the late 1970s in part because the incentives for homeownership became increasingly compelling. The combination of high appreciation rates and high tax rates encouraged middle and upper income households to become homebuyers. Even young singles, who are typically more inclined to rent than families, were lured into the homeownership market. As affluent renters became homeowners, average incomes of renters as a group declined, leaving developers with few incentives to serve the rental market.

Today, homeownership pressures seem to be abating. Owner-occupancy rates actually declined from 65.3 percent in 1981 to 64.7 percent in 1983. Rental construction levels have begun to revive, suggesting that, by the end of the century, a somewhat larger share of new housing units will be available for rent. Moreover, since 1978, the number of units converted from rental to owner-occupied status has been exceeded each year by the number of owner-occupied units converted to rental status (Casey and McGough, 1986).

The ongoing debate over federal income tax reform has raised new concerns about the feasibility of rental housing investment, but the ultimate impacts of tax reform on the relative costs of owning and renting are difficult to predict; lower tax rates will reduce the implicit subsidies to homeownership, but few other tax shelter opportunities may remain as alternatives, and the costs of rental housing may rise if tax benefits to real estate investors are curtailed by more than the benefits to competing investment opportunities.

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* In addition to new construction, slightly more than one million units were added to the nation's housing stock by means of conversions from non-residential use, conversions that increased the number of units in residential structures, or rehabilitation of previously uninhabitable units (McGough, 1986).

Returning to Exhibit 11, we can see that, today, the majority of new owner-occupied units are single-family houses, and that the majority are large. New rental units, on the other hand, are unlikely to be single-family houses, and only about twenty percent have more than two bedrooms. Thus, recent new construction has not supplemented the stock of rental units suitable for large families. The availability of efficiency units, potentially suitable for elderly and handicapped people, also has not been supplemented by recent new construction. Fewer than 200 thousand efficiency units were added to the stock between 1970 and 1983. Most of these are rental units and almost half are located in the central cities.

In the years ahead, we may see some changes in the characteristics of new construction units. Since the number of people living alone is growing so rapidly, developers may respond by building smaller units, for both rental and owner occupancy. Moreover, since an increasing share of singles will be more than 75 years old, it seems inevitable that the availability of housing units offering health and other supplementary services will expand.

However, these units will almost certainly be costly. The median monthly expenses for housing built since 1970 are 15 to 40 percent higher than the median for all units, and there is no reason to expect the differential to narrow substantially in the years ahead. Thus, the supply of housing that is affordable for low income households -- regardless of tenure -- will not be directly supplemented by private new construction. Instead, the stock of low-cost housing will only be increased when dwellings previously occupied by more affluent households are freed up by new construction and can "trickle down."

In some markets, the trickle down process operates effectively to meet the demands of low income households. But the process is not completely reliable; in many circumstances the dwelling units that trickle down from the affluent segment of a local housing market are poorly suited to the needs of the low income population. In other words, housing supply is far less responsive to the demands of low-income households than to the demands of affluent households, even over the long term (NAHB, 1986). Until recently, federally subsidized new construction programs supplemented our supply of affordable rental housing. Between 1970 and 1983, over one million subsidized rental units were built. However, virtually all federal housing production programs have now been terminated. As a result, we can no longer expect the supply of affordable housing to be augmented by new construction, but must rely on an unpredictable trickle down process in the years ahead.

EXHIBIT 11
CHARACTERISTICS OF NEW CONSTRUCTION, 1970-1983

| | Central Cities | | | Suburbs | | | Non-Metro | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Owner | Renter | Total | Owner | Renter | Total | Owner | Renter |
| Year-Round Units(1000s) | 4,641 | 1,718 | 2,448 | 9,678 | 5,933 | 3,016 | 6,800 | 4,640 | 1,442 |
| Structure Type | | | | | | | | | |
| Single-Family | 38.80% | 84.30% | 11.40% | 65.00% | 90.40% | 20.60% | 79.30% | 97.20% | 28.90% |
| Number of Bedrooms | | | | | | | | | |
| Zero | 1.90% | 0.20% | 3.00% | 0.60% | 0.10% | 1.50% | 0.70% | 0.20% | 1.20% |
| Three or more | 39.60% | 78.40% | 16.30% | 60.00% | 82.60% | 21.00% | 64.10% | 80.60% | 25.50% |
| Housing Costs | | | | | | | | | |
| Gross Rent | -- | -- | $390 | -- | -- | $433 | -- | -- | $354 |
| Owner w/ Mort | -- | $607 | -- | -- | $639 | -- | -- | $456 | -- |

EXHIBIT 12
CHARACTERISTICS OF UNITS REMOVED FROM STOCK, 1973-1983

| | Central Cities | | | Suburbs | | | Non-Metro | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Owner | Renter | Total | Owner | Renter | Total | Owner | Renter |
| Yr-Round Units(1000s) | 659 | 59 | 528 | 209 | 55 | 118 | 180 | 48 | 84 |
| Structure Type | | | | | | | | | |
| Single-Family | 7.90% | 47.50% | 4.00% | 45.90% | 78.20% | 27.10% | 52.80% | 83.30% | 33.30% |
| Number of Bedrooms | | | | | | | | | |
| Zero | 7.90% | 0.00% | 6.80% | 14.40% | 0.00% | 12.70% | 5.00% | 0.00% | 4.80% |
| Three or more | 21.20% | 47.50% | 18.60% | 28.70% | 50.90% | 22.90% | 36.10% | 60.40% | 32.10% |
| Housing Costs | | | | | | | | | |
| Gross Rent | -- | -- | $124 | -- | -- | $114 | -- | -- | $103 |
| Value | -- | $15,000 | -- | -- | $19,200 | -- | -- | $11,100 | -- |

Source: 1983 National Annual Housing Survey, Volume A: General Housing Characteristics

## Removal of Units from the Housing Stock

Exhibit 12 presents key characteristics of the approximately 1 million units that were removed from the housing stock between 1973 and 1983. These removals are frequently assumed to have been uninhabitable or chronically vacant units -- no longer capable of providing acceptable housing. However, over 80 percent of them were occupied in 1973. This suggests that, even if the units removed were in poor condition, the majority were not completely uninhabitable. Given the high costs of new construction, the removal of even a million viable housing units from the existing stock is alarming.

Even more troubling is the fact that the units being removed from the housing stock appear served low income households; most were rental units, were inexpensive, were predominantly located in central cities, and a significant share were efficiencies. While the number of removals is small, we know that units of this type are in short supply. We cannot alleviate the housing problems of the poor if significant numbers of low-cost units continue to drop out of the housing inventory (Sternlieb, 1980).

We may also face the prospect that a significant number of subsidized rental units will become unavailable for occupancy by low-income households in the near future. Currently, there are 1.9 million privately owned rental units with federal, project-based subsidies. Expiring Section 8 contracts and mortgage prepayment options will allow increasing numbers of owners to terminate their obligations to make these units available to low income tenants. GAO estimates that the 1995 inventory of privately owned, subsidized units will be between 1.0 and 1.7 million, while the 2005 inventory will be between 174 thousand and 850 thousand (GAO, 1986). Even ifHUD provides a new voucher to replace every subsidized housing unit removed from the low-cost stock, low income households will suffer, because the availability of low-cost housing units will be significantly curtailed.

## Future Housing Needs

Given recent trends in new construction and in the removal of units from the existing housing stock, what can we infer about future housing needs? First, as noted earlier, it is safe to assume that the demands of affluent households will be met, either through new construction or through the conversion and rehabilitation of existing units. The availability of decent and affordable housing for poor households, however, will depend upon the number and characteristics of existing units vacacted by more affluent households. Several factors will affect this trickle down supply process:

The relative costs of new construction and rehabilitation;

The availability and cost of financing for new construction and rehabilitation;

The degree to which the characteristics of the existing housing stock match the characteristics sought by affluent households;

The degree to which the characteristics of existing units vacated by affluent households match the needs of low income households;

Expected appreciation rates for owner-occupied and rental property values;

The prevalence of restrictions -- either de jure or de facto -- on occupancy of existing housing units by minorities and families with children.

All these factors will vary substantially from one housing market to the next. Thus, the only thing that is certain about the future supply of low cost housing is that it will vary dramatically with local housing market conditions. In some markets, the primary problem will be affordability for very low income households, with plenty of reasonably priced units available. All that poor households in these markets will need is a voucher or income supplement to bring the available low-cost units into reach. In other markets, particular types of households, such as large families or handicapped individuals, may have difficulty finding units, even with rent subsidy assistance. Finally, there will be some markets in which reasonably priced housing of all types is extremely scarce, making it difficult for moderate income households as well for those who are poor to find decent units.

Between 1975 and 1983, the incidence of housing problems has grown steadily (Irby, 1986). The share of households living in physically deficient units and the share who are overcrowded have declined, while the incidence of excessive cost burden has risen dramatically. While the share of physically deficient and crowded dwellings has declined for all groups, the absolute number of deficient units remained virtually constant over the 1975 to 1983 period, and the number of low income households who are overcrowded actually increased. Thus, we have not made great progress toward eliminating housing deficiencies during a period in which affordability has become an increasingly widespread problem.

In the absence of major policy shifts, it is likely that the incidence of excessive housing cost burden will continue to climb in the years ahead. And while some poor households may be capable of paying more than 30 percent of their income to obtain decent housing, housing expense to income ratios cannot continue to rise without limit. Ultimately, the problem of unaffordable housing will force more poor households back into physically deficient or overcrowdad conditions. Given recent trends, it would not be surprising if, by the year 2000, close to a third of all households, and 70 percent of very low income households, confronted problems of either housing adequacy or housing affordability.

We can apply these estimates to our earlier forecasts of the size of the very low income population and probable levels of federal housing assistance. In recent years, rent subsidy assistance has been provided to between 50,000 and 100,000 new households annually. At this rate, between 4.75 and 5.5 million of 28.6 million very low income households in the year 2000 will receive rent subsidy assistance in the year 2000. Thus, 23.1 to 23.85 million very low income households (81 to 83 percent) will be unassisted, of whom 16.2 to 17.9 million can be expected to confront serious problems of housing adequacy and affordability. Today, there are between 13 and 15 million very low income households who are unassisted and have housing problems. In other words, absent a substantial reassessment of national housing assistance policies, the United States will make no progress in resolving the housing problems of low income households. In fact, the number of poor households with severe problems of housing quality and affordability can only be expected to increase in the years ahead.

## 5. ADDRESSING CURRENT AND FUTURE HOUSING NEEDS

The preceding sections of this paper document the severity of the gap between housing needs and housing assistance. In this section, we begin by presenting a summary of key findings. Then, in light of these findings, we briefely discuss several issues that warrant careful consideration in the debate over housing policies for the remainder of this century. Clearly, the level of housing assistance must be expanded if the number of needy households is to be reduced. But how should this assistance be structured? What forms should it take? We have not attempted to compile an exhaustive list of policy issues or potential remedies, but, instead, call attention to a few that we believe deserve special attention.

### Summary of Key Findings

Poor households in the United States face severe housing problems, and very few receive the assistance they need.

Federal rent subsidy programs currently serve less than 20 percent of very low income households, of whom at least two thirds live in inadequate or unaffordable housing.

Absent changes in federal housing policy, in the year 2000 rent subsidy programs will still serve less than 20 percent of very low income households, of whom 70 to 75 percent are likely to confront serious housing problems.

Forty percent of rent subsidy recipients also receive income assistance, which includes a shelter allowance, but which, in fact, is often insufficient to pay for modest housing.

Problems of housing availability and affordability are contributing to increases in the population of homeless Americans.

Households who need housing assistance constitute a very diverse group. Minorities, female-headed households, elderly and handicapped people, the rural poor, and the homeless confront very different problems, which are not amenable to a single type of solution.

Minorities and female-headed households face persistent housing discrimination.

There is a shortage of rental housing that can accommodate large families.

Many elderly and handicapped people are unable to live independently in the community due to the lack of suitably equipped and serviced housing units.

The rural poor, most of whom are homeowners, have unusually high rates of housing problems, and their needs often cannot be addressed by conventional rent subsidy or production programs.

In the year 2000, single parent families and elderly people will continue to be over represented in the very low income population, but an increasing share of the elderly will be over 75 years of age.

Single individuals are expected to be the fastest growing household type, and will constitute a rapidly increasing share of the very low income population by the end of the century.

The supply of low-cost housing cannot be expected to respond promptly to the changing needs of low income households, and the adequacy of the low-cost housing stock will vary dramatically with local market conditions.

Private new construction is not affordable for poor households. Instead, the stock of low-cost housing is augmented when units previously occupied by more affluent households "trickle down".

Small but significant numbers of habitable units are removed from the housing stock every year. These units are generally inexpensive and occupied by poor households.

The current inventory of privately owned, federally subsidized rental housing is likely to decline by as much as half by the end of the century, and, given current trends, incremental units of federal housing assistance will barely keep up with these losses.

If current housing assistance policies are sustained for the remainder of the century, the number of poor households with severe housing problems will increase by as much as 3 million.

## Housing Assistance and Welfare

There is clearly something wrong with a welfare system that does not provide enough assistance for recipients to afford acceptable housing. Currently, there are some households lucky enough to receive both welfare assistance and housing assistance, but those who receive only welfare assistance are likely to live in deficient, overcrowded, or unaffordable housing.

An explicit division of responsiblity between income assistance programs and housing assistance programs needs to be established. For example, if all welfare recipients received payments large enough to cover actual shelter costs, they would no longer need to compete for rent subsidy assistance. Housing assistance resources could be used to address supply problems or to help poor people who do not need (or are not eligible for) income assistance but who cannot find or afford suitable housing. The main problem with this approach is that, in the absence of housing quality standards, poor households who receive income supplements generally do not improve their housing conditions. To eliminate physically deficient and overcrowded housing, quality standards would have to be enforced in conjunction with the provision of income supplements.

Alternatively, responsibility for all housing assistance could be shifted out of the welfare system. Welfare payments would explicitly exclude any shelter allowance, and all poor households would rely on HUD programs for housing assistance, regardless of their welfare status. Presumably, a solution of this nature would make housing assistance available on an entitlement basis -- at least to welfare recipients. Buts as long as vouchers are the primary mechanism for providing housing assistance and welfare shelter allowances (which are, in effect, vouchers) are insufficient for meeting the housing needs of recipients, the lines of responsibility between these two programs will remain blurred, and the outcomes will be inequitable.

## Housing Design

One of the central themes of this paper is that different groups within the very low income population face different housing problems and need different kinds of housing assistance. For some households in some housing markets, money is really all that is required. The kind of dwellings these households need are readily available, but unaffordable. Other households clearly need specially designed and equipped units that the private housing stock is unlikely to provide. Physically handicapped people, for example, must have units that are free of barriers to their mobility. Housing assistance that augments the purchasing power of such households is of no value if suitable units are unavailable.

Between these two extremes are many households who can accommodate themselves to the types of units that are generally available, but who could benefit substantially from units offering special design features. To illustrate, an elderly or mentally handicapped person might be able live independently in an accessory apartment attached to her family's home. Single mothers might be able to resolve their child care needs and seek employment if they could live in units with extra rooms for extended family members. American Indians might be more likely to take advantage of housing assistance if dwellings were designed to meet their standards of quality rather than our own. In all of these examples, housing designs that are tailored to a particular type of household have the potential to more fully meet housing needs but also to provide a starting point for the resolution of other serious problems.

Housing assistance mechanisms would have to be considerably more varied and flexible than they are today to help poor households obtain units designed to fully meet their housing and related needs. In some cases, assisted housing production programs would be required, and these are discussed further below. But the needs of other households may be so specialized that the most effective form of assistance would be funds to pay for modifications to an existing unit. Finally, greater flexibility in the definition of housing standards would be sufficient to enable many households to use the housing assistance they receive to obtain for dwellings more closely suited to their needs.

## Housing Accompanied by Related Services

Just as some households need special design features in order to take full advantage of a dwelling unit, some need special services if they are to live independently. Obvious examples include the frail elderly -- who may require housekeeping, shopping, and meal services -- and mentally retarded people -- who require daily monitoring. Without such services, a dwelling unit is worthless to households of this kind.

Federal housing assistance programs have not generally encompassed the provision of services. A limited number of congregate housing facilities for the elderly and group homes for mentally retarded adults have been built, but these options are not widely available. Linking housing with other essential services does not necessarily require the construction of special projects providing all the services on site. Many services, including housekeeping, shopping, and hot meals, could be provided to assisted households throughout a community. In other words, an elderly person could remain in her own home or live in a conventional apartment building, and receive housing assistance along with a service package. Services of this kind are available in most communities or can be arranged through flexible mechanisms such as house sharing. The policy challenge is to make the connection between housing assistance and the services that must accompany it.

Child care is rarely discussed in the context of housing assistance, but it should be. Finding suitable child care is one of the biggest problems confronting working parents, and the scarcity of affordable child care prevents many low income single mothers from obtaining employment. When a single mother receives housing assistance today, her child care needs are generally ignored. As a result, she may decide not to work or her children, left unattended, may suffer from neglect or abuse. Given these potential consequences, it only make sense to treat the provision of housing assistance to a single mother as an opportunity for registering her children in an affordable or subsidized day care program. This does not mean that all female headed households with assistance would be housed in a single project, or that special day care facilities would be built exclusively for their children. It simply means that a systematic linkage would be established between housing assistance and child care services, and that a coordinated remedy would be offered to very low income women and their children.

## Assistance to Poor Homeowners

Low income homeowners receive little help with their housing problems. Federal mortgage insurance and direct loan programs have made it possible for some low and moderate income households to become homeowners, and many localities use Community Development Block Grant funds for home repair and weatherization assistance to poor homeowners. But, as a rule, to receive ongoing subsidies, a homeowner would have to sell his home and move to a rental unit.

This is inconsistent with the general perception that homeownership per se is desirable, and that homeowners take better care of their dwellings and their neighborhoods. Moreover, given people's natural disinclination to move and limitations on the supply of affordable rental housing in some markets, it also seems inequitable to discriminate against those low income households who have achieved homeownership. Owner-occupants could be made eligible for the same kind of voucher assistance renters receive, as they were in some components of the Experimental Housing Allowance Program. Alternatively, financing mechanisms, such as reverse annuity mortgages or below market rate loans, could be used to ease financial pressures for low income homeowners.

## Expanding the Pool of Eligible Households

Today, rent subsidies are available almost exclusively to very low income households (incomes less than 50 percent of local median). This targetting makes a great deal of sense, since two thirds of all households facing serious housing problems have very low incomes. And it is difficult to argue for expanding the pool of eligible households when assistance levels are not large enough to serve all of those who are currently eligible. However, two groups warrant consideration.

The first consists of non-elderly singles with very low incomes. These individuals have not generally been eligible for housing assistance unless they are mentally or physically handicapped. In the years ahead, single individuals, including those who are not elderly, will constitute the fastest growing household type, and its representation among very low income households will increase markedly. Little is known about the housing circumstances of non-elderly singles, or about their need for assistance. However, the growing number of young single people in the homeless population raises the possibility that some experience severe housing problems. Therefore, the characteristics and needs of this rapidly growing group deserves examination.

In addition, the needs of households with incomes just over 50 percent of median should be carefully monitored. Today, the incidence of housing problems among households with incomes between 50 and 80 percent of median is half as high as the incidence of problems among very low income households. However, under some market conditions, housing problems among lower and moderate income households may become severe. If so, assistance should be made available.

## Assistance to Rural Households

Even in the 1980s, the rural poor experience some of the nation's worst housing conditions. Federal efforts to eliminate substandard units and help the rural poor to afford decent housing must continue. However, assistance to rural households need not take the same forms nor apply the same standards of quality as does urban housing assistance. In fact, efforts to meet the housing needs of the rural poor might be more effective if the applicable standards of quality were reassessed.

For example, construction costs are apparently so high in some remote areas of the South, that new houses built to meet conventional quality standards are unaffordable for most households. On Indian reservations, some residents reportedly choose not to take advantage of housing built to conventional standards because a dirt floor has religious significance and because conventional units do not provide any facility for watering livestock. These examples suggest that, as in some developing countries, the housing standards of the American middle-class are inappropriate. It makes more sense to define a workable standard -- even if it violates conventional notions of acceptability -- than to apply a standard that is infeasible in remote, sparsely populated parts of the country.

## Preserving and Augmenting the Stock of Affordable Housing

The 1980s have witnessed the discontinuation of virtually all subsidized housing production. Indeed, building new housing for the poor is extremely costly, and not all communities need new units every year. Under many circumstances, vouchers may indeed prove to be the most efficient way to address the housing needs of the poor.

But the elimination of federal programs for housing construction and substantial rehabilitation is dangerous for three reasons. First, some households cannot make use of dwellings that are not equipped with special design features. If the federal government does not provide incentives for the production of such specially designed units, none will be available for occupancy by assisted households. Second, the supply of low-cost housing is not fully responsive to the changing demands of poor households. Individual markets may experience shortages of particular types of units over the course of several years. For example, large rental units are extremely scarce in central city areas, so that, even with a housing voucher, large families are often unable to find a place to live. In these circumstances, federal incentives are necessary to produce new units that are immediately available for occupancy by low income households. Finally, the current inventory of privately owned, federally assisted housing is likely to be reduced substantially in the years ahead, with units converted to owner-occupancy or to luxury rentals. In the absence of compensating additions to the subsidized housing stock, more and more low-income households will be unable to find decent and affordable units.

The federal government can also play a major role in the preservation of the existing housing stock. Economic incentives for property owners to remove habitable units from the stock need to be reversed. The problem may be declining property values, lack of long-term financing for central city properties, or inadequate rent levels to support moderate renovations and repairs. The federal government has the capacity to address these problems, and, given the costs of new construction, the preservation of the existing housing stock is an essential priority.

Any future programs for low-cost housing preservation and/or construction must be sensitive and responsive to local housing

market conditions. Not every community needs new construction, even though it is politically attractive. Funds for new construction and rehabilitation should be carefully allocated on the basis of need, requiring evidence of housing shortages in specific segments of the housing market. New construction should only be undertaken when local housing needs cannot be addressed by less expensive mechanisms.

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## ANNEX A
## CHARACTERISTICS OF THE HOUSING STOCK -- U.S.
(1000s)

| | Central Cities | | | Suburbs | | | Non-Metro | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Owner | Renter | Total | Owner | Renter | Total | Owner | Renter |
| Year-Round Units | 27,229 | 13,372 | 12,708 | 34,653 | 22,794 | 9,866 | 29,793 | 19,558 | 7,282 |
| Structure Type | | | | | | | | | |
| Single-Family | 49.74% | 84.63% | 19.68% | 71.17% | 89.49% | 32.12% | 78.13% | 88.02% | 53.41% |
| Mobile Home | 0.94% | 1.61% | 0.45% | 3.02% | 4.83% | 2.25% | 8.12% | 9.89% | 6.66% |
| Number of Bedrooms | | | | | | | | | |
| Zero | 4.00% | 0.27% | 6.62% | 1.11% | 0.18% | 2.59% | 1.07% | 0.28% | 2.03% |
| Three or more | 39.27% | 64.56% | 18.13% | 56.75% | 73.28% | 23.34% | 54.25% | 66.07% | 31.39% |
| Year Built | | | | | | | | | |
| Since 1970 | 17.44% | 14.64% | 19.27% | 30.18% | 29.11% | 31.47% | 28.49% | 31.12% | 22.95% |
| Before 1940 | 40.66% | 35.27% | 44.57% | 19.71% | 17.27% | 24.38% | 31.93% | 27.17% | 40.40% |
| Housing Costs | | | | | | | | | |
| Gross Rent | — | — | $308 | — | — | $364 | — | — | $231 |
| Owner w/ Mort | — | $432 | — | — | $522 | — | — | $401 | — |
| Owner w/out | — | $168 | — | — | $195 | — | — | $143 | — |

Source: 1983 National Annual Housing Survey, Volume A: General Housing Characteristics

### ANNEX B
### CHARACTERISTICS OF THE HOUSING STOCK — NORTHEAST
(1000s)

| | Central Cities | | | Suburbs | | | Non-Metro | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Owner | Renter | Total | Owner | Renter | Total | Owner | Renter |
| Year-Round Units | 6,684 | 3,391 | 3,061 | 8,442 | 5,764 | 2,312 | 4,226 | 2,854 | 1,079 |
| Structure Type | | | | | | | | | |
| Single-Family | 29.11% | 67.71% | 6.63% | 69.46% | 90.44% | 19.81% | 72.79% | 89.10% | 30.90% |
| Mobile Home | 0.10% | 0.29% | 0.00% | 1.79% | 2.08% | 0.61% | 4.30% | 5.40% | 4.23% |
| Number of Bedrooms | | | | | | | | | |
| Zero | 3.09% | 0.28% | 7.10% | 0.92% | 4.67% | 2.39% | 1.33% | 0.14% | 3.75% |
| Three or more | 33.91% | 62.11% | 16.45% | 57.63% | 75.12% | 18.04% | 57.49% | 79.57% | 26.90% |
| Year Built | | | | | | | | | |
| Since 1970 | 6.57% | 4.09% | 7.34% | 16.10% | 15.63% | 17.70% | 19.99% | 21.69% | 15.61% |
| Before 1940 | 63.97% | 57.42% | 66.56% | 37.99% | 33.02% | 47.71% | 46.81% | 48.34% | 66.64% |
| Housing Costs | | | | | | | | | |
| Gross Rent | — | — | $302 | — | — | $332 | — | — | $307 |
| Owner w/ Mort | — | $442 | — | — | $542 | — | — | $451 | — |
| Owner w/out | — | $214 | — | — | $242 | — | — | $195 | — |

Source: 1983 National Annual Housing Survey, Volume A: General Housing Characteristics

### ANNEX C
### CHARACTERISTICS OF THE HOUSING STOCK — MIDWEST
(1000s)

| | Central Cities | | | Suburbs | | | Non-Metro | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Owner | Renter | Total | Owner | Renter | Total | Owner | Renter |
| Year-Round Units | 6,382 | 3,295 | 2,651 | 8,570 | 6,104 | 2,102 | 8,268 | 5,536 | 1,891 |
| Structure Type | | | | | | | | | |
| Single-Family | 51.52% | 82.61% | 19.81% | 76.34% | 93.02% | 31.82% | 79.93% | 91.24% | 52.09% |
| Mobile Home | 1.03% | 1.67% | 0.40% | 2.54% | 3.06% | 1.47% | 5.70% | 6.97% | 4.49% |
| Number of Bedrooms | | | | | | | | | |
| Zero | 3.21% | 0.24% | 5.31% | 0.63% | 0.10% | 1.76% | 1.27% | 0.09% | 2.54% |
| Three or more | 40.67% | 62.43% | 18.99% | 61.21% | 75.57% | 23.00% | 54.66% | 65.46% | 22.36% |
| Year Built | | | | | | | | | |
| Since 1970 | 12.81% | 9.83% | 16.72% | 26.50% | 24.82% | 31.40% | 21.93% | 22.90% | 20.23% |
| Before 1940 | 51.37% | 46.19% | 59.20% | 21.42% | 18.61% | 27.12% | 44.87% | 40.82% | 50.54% |
| Housing Costs | | | | | | | | | |
| Gross Rent | — | — | $276 | — | — | $330 | — | — | $248 |
| Owner w/ Mort | — | $412 | — | — | $508 | — | — | $402 | — |
| Owner w/out | — | $185 | — | — | $203 | — | — | $156 | — |

Source: 1983 National Annual Housing Survey, Volume A: General Housing Characteristics

### ANNEX D
### CHARACTERISTICS OF THE HOUSING STOCK — SOUTH
(1000s)

| | Central Cities | | | Suburbs | | | Non-Metro | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Owner | Renter | Total | Owner | Renter | Total | Owner | Renter |
| Year-Round Units | 8,112 | 3,909 | 3,501 | 9,296 | 6,129 | 2,424 | 13,293 | 8,796 | 3,182 |
| Structure Type | | | | | | | | | |
| Single-Family | 64.23% | 93.09% | 28.36% | 71.97% | 87.73% | 38.61% | 86.69% | 87.42% | 62.41% |
| Mobile Home | 1.21% | 1.36% | 1.46% | 5.20% | 6.27% | 4.33% | 9.57% | 11.32% | 8.14% |
| Number of Bedrooms | | | | | | | | | |
| Zero | 1.59% | 0.05% | 2.91% | 0.83% | 0.10% | 1.90% | 0.66% | 0.29% | 1.10% |
| Three or more | 42.92% | 67.66% | 19.97% | 57.40% | 73.30% | 27.01% | 54.63% | 66.29% | 32.94% |
| Year Built | | | | | | | | | |
| Since 1970 | 25.09% | 17.90% | 30.08% | 41.72% | 41.09% | 40.22% | 33.17% | 36.01% | 25.33% |
| Before 1940 | 22.46% | 21.69% | 22.99% | 9.31% | 8.13% | 11.31% | 21.79% | 16.54% | 31.87% |
| Housing Costs | | | | | | | | | |
| Gross Rent | — | — | $300 | — | — | $363 | — | — | $230 |
| Owner w/ Mort | — | $412 | — | — | $505 | — | — | $389 | — |
| Owner w/out | — | $146 | — | — | $137 | — | — | $124 | — |

Source: 1983 National Annual Housing Survey, Volume A: General Housing Characteristics

### ANNEX E
### CHARACTERISTICS OF THE HOUSING STOCK — WEST
(1000s)

| | Central Cities | | | Suburbs | | | Non-Metro | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Owner | Renter | Total | Owner | Renter | Total | Owner | Renter |
| Year-Round Units | 5,821 | 2,777 | 2,736 | 8,343 | 4,887 | 3,066 | 4,003 | 2,372 | 1,170 |
| Structure Type | | | | | | | | | |
| Single-Family | 36.73% | 69.70% | 26.64% | 66.73% | 86.10% | 37.13% | 71.34% | 81.22% | 31.20% |
| Mobile Home | 1.42% | 2.74% | 0.26% | 5.90% | 8.29% | 2.40% | 12.10% | 16.40% | 8.29% |
| Number of Bedrooms | | | | | | | | | |
| Zero | 6.57% | 0.34% | 11.99% | 2.07% | 0.42% | 3.75% | 1.67% | 0.32% | 3.31% |
| Three or more | 39.89% | 64.02% | 17.32% | 50.52% | 69.34% | 25.43% | 48.64% | 61.64% | 29.37% |
| Year Built | | | | | | | | | |
| Since 1970 | 24.61% | 24.02% | 24.49% | 35.51% | 35.47% | 34.72% | 35.32% | 40.39% | 27.70% |
| Before 1940 | 27.19% | 22.25% | 30.56% | 11.03% | 8.30% | 1.60% | 23.43% | 18.63% | 29.32% |
| Housing Costs | | | | | | | | | |
| Gross Rent | — | — | $300 | — | — | $363 | — | — | $233 |
| Owner w/ Mort | — | $412 | — | — | $505 | — | — | $369 | — |
| Owner w/out | — | $146 | — | — | $137 | — | — | $124 | — |

Source: 1983 National Annual Housing Survey, Volume A: General Housing Characteristics

Mr. McHUGH. This basically covers all levels of partnerships and also utilizing programs that worked in the past—let's not abandon them. Let's use them again in the future—all levels of partnerships on the Federal, State and local level.

Senator GRAHAM. Mr. McKay.

Mr. McKAY. Senator Graham, it is hard to grasp, for me, the significance of 10, 12, or 15 years from now, when we are caught up and have been caught up over the last 6 years in a life-and-death struggle for these housing programs. You are looking at a table full of the survivors. You know, the programs have been collapsed, so we have been up against the wall trying to have the public housing program, which, of course, does provide the assistance to the lowest income population, at least get adequate subsidies to keep the heat on and to keep the maintenance people working. And then we have had, on the other side, we've got a 50-year-old program with a lot of old buildings and a lot of very expensive work to keep them up, and some unfortunate mistakes in construction methods of the high-rise of the 1950's and early 1960's.

There is a lot to be done out there, just to keep ourselves moving.

But what we have in the public housing program is the institutional frame, with which the country deals with the housing needs of the lowest population group in the country. It is the only institutional frame we have. It is the only one left. The other programs deal with the moderate, but we talk about the $3,000 to $5,000 or $8,000 a year income person. The subsidy needs are very substantial. They are not receiving indirect subsidies, as was pointed out by Barry, that homeowners like all of us receive. They have to get it in all other kinds of ways.

### CHALLENGE FOR NEW IDEAS

We have got to find a way to deal with that population. That is the toughest population, and we have to segment our understanding of how we deal with this. I just think we have to look at this low-income population as a separate group that are not fed by the typical housing finance agency approaches only on a moderate basis, that public housing can face the future. I assume there are the capable people within the system who can face it, and with your leadership, I think we can challenge them and come forward with new ideas and new programs through the chairman's leadership here. I think we will be able to just accept that challenge from you.

Senator CRANSTON. Thank you very much.

Mr. WATSON. Senator Graham and Mr. Chairman. Along with trying to determine where we want to be by year 2000, I think we have to take a serious look at what we are doing right now and attempt to make sure that we are able to get much more effective operation of our current programs. We always seem to get involved in simply attempting to bring in something new as opposed to evaluating what we have currently going on.

For example, we come to you each year, and we talk in terms of PFS, we talk in terms of CIAP, and we sometimes talk to you in terms of taking the shackles off the management of public housing authorities, so we can make it a much more efficient operation, a matter of trying to stretch those funds out and get the most effective use of those dollars.

We have housing authorities in this Nation that operate without PFS. I think one is in Senator Graham's State, run by, I think, Russell Barakat from the Broward County Housing Authority, operates without performance funding subsidy is my understanding.

You would find that if we were allowed to operate as we think we can operate without some of the shackles that we have on us sometimes, we could actually do a much more effective job of providing the housing to low-income residents.

You are spending a lot of time right now trying to develop a program to house the homeless, and it seems that in developing that program, you are forgetting one of the major resources that you have in this country that has been providing shelter for the homeless for years, and that is your public housing authority. While attempting to cut funds for developing public housing programs, you are providing funds in another arm for shelter for the homeless.

It would seem that you might want to look at your viable resource, namely your public housing authorities and see if they could assist you in an effective manner helping provide that shelter, provide that shelter that you say you want to provide. You are also looking very seriously at homeownership programs, particularly homeownership programs for low-income families, while at the same time, there is currently a homeownership program at public housing authorities called the homeownership program for low-income families that has been in operation since the early 1970's.

Somewhere along the line, no one is taking a look at the program to determine whether that program is operating effectively, whether, with minor changes in that program, it can be a much more viable program and really meet the needs of what you say you want to provide for low-income families.

So I am just suggesting that along with looking at completely new options for reaching goals in year 2000, that you might really evaluate some of the things that are out there now and might think in terms of allowing your public housing authority directors, who are a valuable resource for you to help you meet the goals that you say you want to reach.

Thank you.

Senator CRANSTON. How would public housing authorities be able to help right now, this winter, in regard to the homeless?

Mr. WATSON. Public housing authorities are able to operate with section 8 existing certificates. In many areas, if we had more section 8 existing certificates, we would be able to take those people off of the street. If we had those right now, this winter, we would be able to take those people off the street.

Senator CRANSTON. Is the housing available for that purpose?

Mr. WATSON. There is housing available in many communities for that purpose. I cannot say to you that there is housing available in every community for that purpose, but in many communities, there is housing available for that purpose.

We are also being told that a number of the homeless now are families. These families would qualify for housing under the section 8 Certificate Program, if you wanted to work with them right now.

Senator CRANSTON. Mr. McKay.

Mr. MCKAY. The public housing authority development program can buy units. Public housing can be the hardware provider of a shelter program. In most cases, you do need a settlement house or social work agency. In Boston, for instance, the largest shelter in the city, 400 beds, was built with public housing funding. There are shelters that have been built. Seattle has bought a—the city has bought a downtown hotel, primarly mentally incompetents who are in it. They have a arrangement with the county welfare office that provides service into the building, and the housing authority owns it and manages it. The housing authority is trying to find a way to turn or to sell the unit or to give the unit or give the building to the local social work agency that will provide the service.

So you have the hardware and the software sides of this kind of work. The hardware side can be carried out by an innovative housing authority that wants to meet the needs and is being done in many communities for smaller size shelters for families, for battered women.

We do have a series of alternatives, and I think we have talked to staff about this. We can certainly provide additional material on what authorities are doing to meet the needs of the homeless across the country. These are not major efforts, because the authorities are being overwhelmed when you have an authority that has a lengthy waiting list, it is hard to ask them to worry about the homeless, because they have a lot of people waiting at the door too. So it is always a terrible choice of who do we help first.

Senator CRANSTON. I do anticipate that the new homeless bill will contain some section 8 certificates, but, given the budget constraints that Senator Proxmire was mentioning, there will not be enough to meet the need.

Bob, you precipitated quite a discussion. Do you have anything more to say?

Senator GRAHAM. Well, no, Mr. Chairman, other than it seems to me that if there is clarity and a high degree of quantification as to where we need to be going, then it gives us a standard against which to evaluate the individual initiatives which cumulatively are intended to get us to our destination.

This has been a very helpful discussion, and I appreciate the chairman's affording me the opportunity to participate.

Senator CRANSTON. Thank you very, very much. I think we have to move on to our final panel now to stay on schedule.

I thank you very much for a very useful contribution. Thank you, Bob.

Will the witnesses please come forward.

Our first witness is Harold Wilson, executive director of the Housing Assistance Council, Washington, DC.

We welcome all of you. We have to quit about 12:30, so I ask you to please hold your statements to the 5 minutes.

Did you not want to go first? Do you want somebody else to go first?

## STATEMENT OF HAROLD WILSON, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL, WASHINGTON, DC

Mr. **Wilson**. I am happy to go first. I was going to change places with Mr. Runquist.

Mr. **Runquist**. That is OK. We can wait for each other.

Senator **Cranston**. I do want to ask again that you hold your statements to 5 minutes. Your full statement will appear in the record. Please observe the red light.

Mr. **Wilson**. Thank you very much, Mr. Chairman. We appreciate that very much. We appreciate particularly the opportunity to be invited to appear before this committee once more, and I look forward to working with you in the future as we work out legislation to try to solve the problems of low-income families and rural communities.

My name is Hal Wilson. I am the executive director of the Housing Assistance Council.

We would like to urge Congress this year to pass a housing authorization bill. As you know, it has been 4 years since we have had an authorization bill. There are improvements that are greatly needed in the Farmers Home Administration programs, and we therefore would like to see a new bill.

### PRESERVATION OF EXISTING STOCK

Along with that, at this time, I would like to underscore several pressing issues that you have already heard something about this morning. The first is that one of the most pressing issues that we are faced with this year and probably for a number of years to come, will be the preservation of the existing subsidized housing stock that the Federal Government has created. You have already heard testimony to the fact that significant numbers of units are being lost currently in the section 8 Program, in the HUD 236 Program and in other HUD programs.

This is also the case in the Farmers Home Administration Section 515 Program, their multifamily housing production activity. The prepayment of section 515 loans is causing displacement of tenants in many States across our country. I think you are aware that in California, 17 percent of the 515 units produced have already been prepaid, those units produced since 1977. And the General Accounting Office estimates that by the year 2000, 275 units of Farmers Home Administration assisted housing could be prepaid. At the current time, it costs about $34,000 to replace a unit that cost only a little over $4,000 to produce in 1963. If prepayment continues in that program, the bill to replace those units will be enormous.

A solution to that problem has been suggested by the National Rural Housing Coalition. We would like to support the solution they are suggesting, which is, basically, to prohibit the prepayment of 515 units, to allow an initial sale of those units to nonprofit organizations with guaranteed loans and to hold tenants harmless in their rent levels, if their incomes are above 50 percent of area median income and to hold those below 50 percent of area median income at 30 percent.

I think you will hear a little bit more about that proposal in a few minutes and I want you to know that the Housing Assistance Council supports that approach to a solution.

In terms of the budget proposal for next year, the Housing Assistance Council is once again very concerned that this budget calls for the elimination of the Farmers Home Administration housing programs as we know them and the substitution of those programs which we feel have worked well over the past with 29,000 vouchers, plus an additional 1,200 vouchers for tenants displaced by prepayment.

At this level, Mr. Chairman, that will leave only 8,000 vouchers to take care of new families in need in the rural areas of our country.

I would like to suggest to you that vouchers simply will not work in rural America for several reasons.

The first is we feel there are probably no units available to take care of the need we are experiencing in rural communities that vouchers would try to solve. We are in contact with organizations that administer the existing Section 8 Program, and they are having a significant failure rate for families in rural communities with their Section 8 certificates.

There is also a need for new units in rural communities, and the Voucher Program simply does not create any new units. We are experiencing at the current time a 75,000 unit shortfall in rural areas where we have over 2 million families living in substandard housing.

Thank you very much, Mr. Chairman, for allowing us to appear before the committee again. We submitted a complete testimony for the record in which we outlined these problems in more detail and a number of other issues that are of concern with us.

Again, we look forward to working with you in this year and the years to come. Thank you.

[The complete prepared statement of Harold O. Wilson follows:]

Testimony of Harold O. Wilson

Executive Director

Housing Assistance Council, Inc.,

Before the Subcommittee on

Housing and Urban Affairs

Committee on Banking, Housing and Urban Affairs

UNITED STATES SENATE

February 17, 1987

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Mr. Chairman and distinguished members of the Committee, I am Harold O. Wilson, Executive Director of the Housing Assistance Council (HAC). HAC is a national nonprofit organization concerned exclusively with housing problems of the rural poor We are very pleased to be invited to present our views on the housing situation in rural areas and the proposed legislation to assist the rural poor.

Please let me begin by expressing HAC's strong support for a housing authorization bill this year. Four (4) years have now passed without formal legislation reauthorizing the Farmers Home Administration (FmHA) rural housing programs. Even though these programs have continued, there has been no opportunity to address needed individual program changes, add new programs or effect necessary technical changes.

For those reasons we urge this subcommittee and the Congress to enact a responsive housing bill that will more adequately address the increasing housing needs of the rural poor.

My testimony addresses the items requested in the Chariman's letter of February 9, and emphasizes the following issues:

I. Prepayment of Section 515 loans

II. Authorization levels of the Farmers Home Administration (FmHA) program

III. The Administration's FY 1988 Budget request

IV. Amendments to existing programs

V. Indian Housing

## I. Prepayment of Section 515 Loans

The Housing Assistance Council is deeply concerned about the plight of low and very low income tenants who may be displaced or subjected to increased rents by the prepayment of FmHA Section 515 loans. This growing problem will have increased impact upon low income rural tenants in the near future. HAC has been closely reviewing this problem, and has determined the following:

1) prepayment is causing displacement of low income rural tenants;

2) housing units subsidized by the federal government are being irrevocably lost without replacement due to federal budget reductions;

3) the steady loss of low income housing stock due to prepayment will create an enormous and unnecessary fiscal expense in the future as units are replaced;

4) the recognized and substantiated low income rural housing need remains at unacceptably high levels.

HAC has developed in-depth rural housing need studies and has have used information from the Congressional Research Services (CRS), the General Accounting Office (GAO), and Farmers Home Administration (FmHA) to demonstrate the unfortunate effects prepayment will have on FmHA rental units. We strongly urge a comprehensive study of the problem by GAO, and adoption of legislative remedies proposed by the National Rural Housing Coalition (NRHC) which we feel will provide a long term solution to the problem.

Central to this issue is the preservation of units specifically built for low-income rural tenants. A policy of allowing the prepayment of 515 units with no protection for low-income residents is a mistake which must be rectified because of the burden it places on low-income families and the expense it causes the Federal government. The current moratorium has provided some welcome relief, but unfortunately it expires in only four (4) short months.

It was my privilege in 1979 to offer testimony supporting limitations on prepayment. HAC supported the legislation limiting prepayment for the entire 50 year mortgage term. Ultimately, the two Houses of Congress conferred and agreed upon 20 year restrictions, with somewhat lesser conditions for loans made prior to 1979. Many of us here today remember the 1980 legislation repealing the retroactive provisions. Proponents of repeal claimed that displacement was an isolated factor, and that growth of federally subsidized units would assure replacement housing for low income tenants.

Unfortunately history has taught us otherwise. Displacement caused by prepayment is increasing at a pace threathening stability for rural families. Federal housing programs have not grown. In the face of growing need, they have been reduced dramatically.

A. Displacement

The California Study. After 1980 little attention was paid the rural aspect of prepayment except by legal services' attorneys and the National Housing Law Project. A 1985 California Department of Housing and Community Development (DHCD) study on federally assisted rental conversions identified 16 California Section 515 projects. They totaled 453 prepaid units during 1984 and 1985, and another 394 units in 7 projects pending as of November 15, 1985. Based on the very limited availability of alternative affordable housing, the study estimated that 90 percent of these tenants were or will be displaced. Seventeen (17) percent of all California Section 515 assisted units have been prepaid since 1977. Attached statistical information on California prepayments during fiscal years 1984-1986.

Also attached are tables illustrating the existing and potential impact of unrestrained prepayment. A General Accounting Office report has noted the potential enormity and gravity of a policy permiting poor families, mostly elderly, to be displaced from their homes. The current policy represents nothing more than officially condoned evictions of low income rural Americans. The following data illustrates the problem:

- o GAO estimates that by 2,005 up to 275,169 Section 515 units could be prepaid.
- o 365 projects with 5,373 units were prepaid during fiscal years 1984, 1985, and 1986.
- o An additional 45 loans, for which unit data is incomplete, were pending as August, 1986.
- o Of 366,406 units financed from 1963 through 1985, an estimated 191,794 or 52.3 percent are eligible for unrestricted prepayment. 159,534 units, or 44.7% of 357,318 units in the current housing portfolio, were approved prior to December 21, 1979.
- o 1,262 loans, or 11.3 percent of those made prior to fiscal year 1980 (those essentially eligible for unrestricted prepayment) have already been prepaid.
- o 61.5 percent of all closed and operational Section 515 units, as of August 8, 1986 have limited profit ownership. These owners are most likely to seek prepayment, compared to nonprofit, public or market rate borrowers.

One California FmHA District Office reports three prepaid projects with tenants in 94 of 106 units (88.7%) dependent on FmHA Rental Assistance. These tenants, who could not even afford FmHA basic rents of $185-$205 per month, are facing rents ranging from $300 to $400 per month. The FmHA report on vacant units availability concluded there were "none that displaced tenants can afford". In another California project, an 83 year old woman with a fixed income of only $455 per month has been paying 25 percent of income for rent, including utilities. Her rent after prepayment is now $375, leaving her a total of $80.00 per month for food, clothing and related items. To remain in that project she must pay 82.4 percent of her income for rent. Obviously that is imposible. Speculation on her future is not encouraging.

Mr. Chairman, this problem is not limited to California, where 71 percent of the tenants in 1984-1986 prepaid projects received rental assistance. Vermont Legal Aid, Inc. reported several projects lost to prepayment. They identified one prepaid project where 90 of 112 families were displaced in 1985. The preliminary FmHA statistical report indicates displacement is occuring in several states, and the tendency for prepayment is mounting. FmHA is currently gathering data, and we will submit additional reports to the Committee as information becomes available.

## B. Replacement Housing

Continued Housing Need. The Congressional Research Service (CRS) report (No. 86-517S, Morton J. Schussheim) in January, 1986 illustrates rural housing need. They used nonmetro data to approximate need for rural areas. We have included only nonmetro very low-income housing conditions to show the severity of the problem, and therefore the requirements for assistance:

| | |
|---|---|
| Occupied inadequate units | 1,735,000 |
| Occupied crowded units | 227,000 |
| Occupants with a cost burden | 2,513,000 |
| Total with housing problems | 4,475,000 |
| Percent of total occupied V.L.I. units with housing problems. | 59.2% |

The CRS study also estimated annual rural area housing requirements and production for the period 1986-1990:

Requirements:

| | |
|---|---|
| Additional households | 350,000 |
| Replacement units | 230,000 |
| Vacancy/Mobility | 45,000 |
| Total | 625,000 |

Production:

| | |
|---|---|
| Housing starts | 300,000 |
| Mobile homes shipments | 200,000 |
| Conversions and rehabilitations | 50,000 |
| Total | 550,000 |

The result is a 75,000 annual unit production shortfall at a time when 59% of very low-income households already have housing problems. It is very probable that in a market this tight, very low-income tenants will be displaced in increasing numbers because of pressures to provide housing for those able to pay more.

## C. Cost of Replacement.

When considering the impact of removing subsidized units from the assisted low-income housing stock, it is important review replacement cost.

- The average 1963 per unit cost (the first year of the program) was $4,875

- The average cost for units produced between 1963 and 1979 (the unrestricted prepayment period) was $17,206
- The average for 1985 was $31,999
- The HAC estimate for 1987 is $ 34,084

It is unsound public policy to permit the loss of assisted housing which must be replaced at almost twice the capital cost. This does not do justice to current residents of Section 515 housing, and is patently unfair to those future generations of Americans who must pay the increased costs.

## D. Solutions

Retroactive Restrictions. We believe the 1980 analysis of retroactivity and breaching government contracts was oversimplified. Attached is a report by HAC consultant Art Collings. He points out the FmHA Section 515 contractual complexity where some criteria in the law serve to question the current prepayment process. Certainly not at issue is Congress' legal right to pass laws retroactively changing the character of regulations. His report referenced legal cites to court decisions known to Congress in 1979. The simple truth is that Congress is entitled to protect the public need and to legislate necessary changes in the public interest.

The Purpose for Section 515. The Rural Rental Housing legislation had its origins in the Senior Citizens Housing Act of 1962. Approximately one third of all Section 515 units are exclusively rented to senior citizens. Occupancy eligibility is limited to very-low, low and moderate income households, with income limits essentially those of the Section 8 program. For the sole purpose of providing affordability for those eligible citizens in need of decent housing, the law provides 50 year mortgages, 1 percent interest, and, to a more limited degree, rental assistance subsidy. In addition to direct subsidy, FmHA employees provide a large amount of staff time and other government resources. The government has a sizeable investment in long term low-income housing. The primary purpose of that investment is to provide decent housing for rural citizens unable to otherwise afford or obtain such housing.

Private investors in the Section 515 program are required to contribute only 5 percent of development cost and to have an additional 2 percent for initial operating expenses. Investors then borrow the balance at government subsidized very low interest rates (essentially 1 percent) and 50 year terms from FmHA. The investors are provided this financial advantage for only one purpose: to produce decent, safe, affordable housing for eligible tenants. Under the current law, owners or borrowers of pre December 21, 1979 projects may choose to displace tenants any time they feel it profitable to do so. Those with post 1979 projects must normally wait 20 years to do the same. Neither is in the best interest of this nation. Neither is the best interest of rural low-income families in need of adequate shelter.

HAC strongly feels a long term solution must be found. We strongly endorse the the National Rural Housing Coalition (NRHC) proposal and urge the members of this subcommittee to incorporate it into this legislation.

The key features of the NRHC proposal are as follows:

i) All prepayments are prohibited. Pre 1979 project owners whishing to prepay can sell their Section 515 projects, at fair market value, only to nonprofit organizations or public bodies.

ii) FmHA will finance a buyout of the owner by permitting the nonprofit to assume the balance of the original Section 515 loan. The difference between the original loan and fair market value will be financed through an FmHA subsidized guarantee on a private sector loan.

iii) Tenant Rents - FmHA will be authorized to make subsidy payments, through reimbursements to the Rural Housing Insurance Fund (RHIF) to provide for:

a) current and future tenants with incomes at or below 50% of median (very low income) to insure they will pay no more than 30% of income for rent;

b) tenants at the date of refinancing, with income above 50% of median, will have their rents held harmless;

c) and, tenants taking residency after refinancing, with incomes above 50% of median, will pay the higher of basic rent or 30% of income.

Reimbursements to the RHIP are funded two years after the fact through appropriations. This can be accomplished by amending the Housing Act of 1949. NRHC proposes to extend the 30% rent to income rates to all very low income households residing in projects transferred after enactment or those entering new Section 55 project after enactment of prepayment legislation.

## Role of Public Bodies and Nonprofits

Project sales will be limited to qualified local public bodies, and local, or regional nonprofit organizations. In their absence, the Secretary will ensure the sale by contracting with a national nonprofit organization, which may assume permanent ownership or work to establish local ownership.

## II. Authorization Levels

The Housing Assistance Council strongly endorses the authorization levels recommended by the National Rural Housing Coalition. NRHC supports maintaining existing programs at a minimum at the FY 1987 funding level. For reasons which we have enunciated throughout this testimony, the need for federal rural housing assistance continues and must be addressed.

## III. Administrations' FY 1988 Budget Request

Mr. Chairman, the need for decent, safe, and sanitary units of housing in rural areas continues. In your invitation to HAC to testify, you sought our opinions regarding the President's budget. Our experience indicates that if enacted, the impact of this budget upon rural areas would be disasterous. The Administration proposal would:

i) Terminate all existing FmHA rural housing programs in FY 1988;

ii) Replace them with a "rural housing voucher" program: 29,000 vouchers for FY 1988, plus 1,200 vouchers for tenants displaced as a results of prepayment;

iii) Continue to sell off the loan portfolio;

iv) Rescind 79.6% of FY 1987 appropriated grant funds; and

v) Request a negative supplemental appropriation to reduce FY 1987 appropriated loan funds by 69.5%.

This budget proposal would signal the end of housing assistance for rural low-income residents. The elimination of programs that have proved themselves effective for many years is ill conceived and insensitive. Proven programs capable of producing 60,543 units in FY 1987 would be substituted for a voucher program which will produce no new or rehabilitated units. It is important to note that FmHA estimates that 12,000 existing rental assistance contracts (RAP) will need renewal in 1988. 1,200 of the 21,200 vouchers would be used to assist tenants displaced as a result of Section 515 loan prepayment. After covering RAP renewal needs from the 20,000 available units, the net result will be 8,000 units to assist additional households rent existing units.

An immediate problem with the voucher program is its initial spending constraints. The Office of Management and Budget (OMB) will reportedly permit only $1 million to be actually used in FY 1988. The estimated average annual cost for RAP renewal expiring in 1988 is $26.8 million. While these renewals are spread over the year, it is obvious that there will be a funding shortfall that will seriously impact tenants and owners alike.

Senator CRANSTON. Thank you very much. Your testimony was very helpful.

Our next witness is Moises Loza, Chairman, National Rural Housing Coalition. We welcome you.

## STATEMENT OF MOISES LOZA, CHAIRMAN, NATIONAL RURAL HOUSING COALITION

Mr. LOZA. Thank you, Mr. Chairman. My name is Moises Loza. I am chairman of the National Rural Housing Coalition. For your information, the National Rural Housing Coalition is a national membership organization and our whole purpose is to advocate for better housing for low-income rural people.

We have appeared before this committee before, and we are very grateful for the opportunity to do so again.

I would like to discuss very briefly some of the provisions in Senate bill 2507, make some comments about the President's budget and talk about rural housing, why we feel that there needs to be a very strong push for housing programs for rural communities.

### SEVERE SHORTAGE OF RURAL HOUSING

By any measure, Mr. Chairman, there is a very severe shortage of affordable housing in rural communities. A 1986 Agriculture Department study reports that more than 2 million rural families live in substandard housing. Over 7 million households live in substandard housing in nonmetropolitan areas.

In addition, there is a serious lack of credit in rural America. National per capita deposits in rural savings and loan associations are approximately half the deposits in the metropolitan areas. About 500 rural counties have no federally chartered savings and loan associations. And furthermore, when there is private credit, it is generally at higher rates and less favorable terms than in the urban areas.

In addition to that, as you know, the farm crisis has exacerbated this lack of credit in the rural communities.

In rural America, therefore, subsidized credit is an absolute necessity to improve the housing conditions of the poor. The high incidence of substandard housing, measured by lack of complete plumbing and overcrowding makes the Farmers Home Administration of the Department of Agriculture a very important program for rural communities.

For example, in rural areas today, there are 2.1 million substandard housing units; 1.3 million units without complete plumbing; 2.8 million units without an adequate water source; 1.1 million units with incomplete kitchens, and 4.4 million units with inadequate heating.

And many of those, by the way, are in the elderly community.

The administration's 1988 budget proposal would shift the emphasis of Federal rural housing policy from new construction and rehabilitation to a Voucher Program. Rural housing production would drop from almost 70,000 units under the fiscal 1987 appropriations to zero in this proposal for fiscal year 1988.

The administration's proposed use of vouchers is based on a premise that an adequate supply of decent rental housing is available in rural America. This is not the case. In fact, there is a disproportionate amount of substandard housing in rural America. According to the Congressional Research Service, the reports are that rural rentals are twice as likely to be substandard than the urban rental housing. Furthermore, vouchers are not a viable option for farm workers, migrants, or Indians, who have no access to decent housing.

Finally, vouchers are not the most cost-effective method of assisting low-income housing. An interim study on the cost of the homeownership program of the Farmers Home Administration indicates that initially that subsidy is $2,900 and it eventually drops to $890 per borrower. That compares with a voucher cost of approximately $3,500 a year.

The Rural Housing Coalition supports the continuation of the current rural housing programs, for obvious reasons. We recommend that funding be maintained at least at the fiscal 1987 levels or the levels in H.R. 4, which are slightly higher.

Let me make a couple of comments about Senate bill 2507. One of the proposed amendments in that bill modifies the definition of "low-income families" to include the use of statewide nonmetropolitan income as a measure of the area median.

The amendment would provide more flexibility in the definition of very low income by allowing the higher of 50 percent of area median income or the statewide nonmetropolitan median. This would help make full use of the section 502 funds which recently have not been used, despite the great need.

Another item in Senate bill 2507 is on the reuse and recapture of the Indian Housing Development Funds. As part of the fiscal 1987 continuing resolution, Congress approved the reuse of Indian housing development and modernization funds recaptured during fiscal year 1987. Now in its fiscal 1988 budget summary, HUD has announced that language also is being proposed for the rescission of any authority recaptured during 1988.

We understand that HUD has about 1,900 units which are at risk. They are in the pipeline and, if HUD goes through with recapturing those units, that would be 1,900 units not available to Indian housing authorities.

Finally, I would like to make a statement on the prepayment problem. You were at the forefront last year when the moratorium was placed on the prepayment of 515 rental housing loans, along with several other Senators. Because of your leadership, no prepayment can be made before June 30, 1987. We hope to continue to work with this committee to solve this very difficult problem. Prepayment in the last 3 years has involved over 5,000 federally subsidized housing units and thousands of those have been elderly and disadvantaged families.

In California alone, over 1,000 units have been removed from the Section 515 Program as a result of prepayment.

The National Rural Housing Coalition has two levels of concern. First, the displacement of low-income and elderly tenants. In many rural communities, section 515 is the only affordable housing available to them.

The second concern is the preservation of low income housing. This Nation has invested millions of dollars to build almost 400,000 units of low-income housing, and we would hate to lose those. It would take two or three times what it cost to build them several years ago to replace them.

I will conclude my statement there, Mr. Chairman, and thank you for the opportunity to appear here. I would be glad to answer any questions.

[The complete prepared statement of Moises Loza follows:]

The stability of the Section 515 program will be undermined as vouchers replace rental assistance (RAP). While the contract dollar levels of vouchers appear on the surface more generous than those in RAP, RAP is used in tandem with 1 percent mortgage loans. Moreover, tenants may take vouchers with them as they move, thereby making vacated units only affordable to higher income families (unless the next tenant also happens to have a voucher). In economically impacted areas, the shortgage of available RAP units for infill or servicing in Section 515 projects have already created a delinquency and/or vacancy problem (unrelated to the need for shelter). The stability of 515 projects would be seriously jeopardized in any area where families requiring subsidy assistance constitute a large portion of the housing market.

The voucher program is admittedly less expensive than the current subsidy cost where Section 515 rents are coupled with FmHA rental assistance. One must question the sufficiency of vouchers in high demand areas with shortages of available units. Moreover, vouchers are considerably more expensive than the subsidy costs in the Section 502 Home Ownership Program. Each five year contract would be for $17,836 or an average of $3,567 per year. The Housing Assistance Council (HAC) has just released an interim report on a study of subsidized Section 502 borrowers who received loans in FY 1981. The study covered 400 borrowers in 13 FmHA county offices who had an average income of $9,600 and an average annual subsidy of $2,900 (the subsidy decreased annually). 63% of the borrowers received less subsidy in 1986 and 10% had become unsubsidized. 20% had left the program via graduation, sale of the home, transfer, or liquidation.

Even where vouchers appear to save money, they are a poor idea for rural areas because they do not lead to new or rehabilitated units. The CRS report notes that:

- Basic rural housing need continues unmet, with 7,202,000 non metropolitan occupied units with housing problems (inadequate housing, overcrowding, and cost burden). 62% of the occupants of the substandard housing are very low-income households.
- Annual production of new and replacement rural housing is 75,000 units less than current need and demand. Of the 550,000 new and rehabilitated units produced annually 200,000 are mobile homes.

A November, 1986 USDA Economic Research Service (ERS) study shows that 2,023,166 rural households live in housing substandard by definition (overcrowded or lacking complete plumbing). This does not include badly deteriorated units which meet standard plumbing and occupancy criteria. The author tested new and existing financing mechanisms, and found a combination to be most effective in rural areas. His report casts serious doubt on the voucher approach for rural areas.

Selling the FmHA loan portfolio is another poor idea. While selling the portfolio without recourse, would increase its sale value, it would leave program recipients without their present rights. Homeowners would be at the mercy of the system FmHA was created to avoid. The National Rural Housing Coalition (NRHC) supported the sale of limited assets last year as a counter to program cuts. However, the supply of unsubsidized loans which can be sold at close to par is very limited. Once the Administration begins selling its subsidized portfolio, including home owners and tenants, subsidies, legal rights, and other benefits not included in private financing, the price will be very heavy indeed. Congressional Budget Committee staff members, speaking at the December, 1986 NRHC annual meeting, were very negative about the sale value of the portfolio. If the Administration sells the entire portfolio, which appears the long range goal, only investors and speculators will gain. The yield will be pennies on the dollar.

The sad fact is that until FmHA borrowers and tenants have higher incomes, they cannot serve and maintain decent housing without subsidy. All the schemes to disinvest and/or rely solely on the private sector would make a bad housing situation worse. It costs money to house people with limited income-even when done on a scale that is far from meeting the need.

## IV. Amendments

Mr. Chairman, we support legislative suggestions to improve the FmHA rural housing programs recommended by the NRHC. The Coalition has developed a series of amendments known as the Rural Housing Amendments of 1987. I would be pleased to provide these amendments to the Chairman and the Subcommittee staff for your consideration.

## V. Indian Housing

The Department of Housing and Urban Development (HUD), the Bureau of Indian Affairs (BIA), and the Indian Health Service (IHS) combine to form the nucleus of the only viable housing programs in Indian country. Assisted or subsidized housing as others know it is simply not available to Indians. Programs of the Farmers Home Administration and other HUD programs such as FHA have not been made accessible to Indian people for a wide variety of reasons. Not the least is the reluctance of the agencies involved to overcome the oftentimes transparent barriers erected at the local and national levels to prevent Indians from using them. For example, we support the recommendation of the National Rural Housing Coalition that FmHA accept a restriction on alienation, limited to tribal members or the tribe, when an FmHA-financed property located on trust land may be foreclosed.

Certainly, there are difficulties with issues such as the status of trust land and the reluctance of lenders to provide financing for houses built on reservations. But these problems are solvable if approached with a spirit of cooperation. However, we do not expect to see that spirit or a resolution of these problems now, particularly when the Administration also proposes a zeroing out of FmHA and new restrictions on many of the HUD program.

Indian people need to keep what they have. They need much more, but they need to keep what they have in assisted housing because this Administration appararently has no intention of providing anything better.

## Overview

In FY 88, the Administration is proposing a 50% reduction from the FY 87 level for new construction activity in the HUD Indian housing program. It likewise proposes zero funding for Indian Health Services Sanitation Facilities, and requests a 23% cut and a prohibition on new construction in the Bureau of Indian Affairs Housing Improvement Program (HIP).

According to the BIA FY 1986 Consolidated Housing Inventory, there is a need for rehabilitated or new housing for approximately 92,580 Indian families living on reservations or trust lands. In 1970, this figure was 63,000. Despite these escalating statistics, improvements have occurred. Since the early 1960s over 60,000 new units have been constructed by HUD and 65,000 units have been rehabilitated through the Bureau's HIP. However, it appears that we are beginning to lose ground. In the past year, Indian families in need of new or substantially rehabilitated homes have increased by 2,340. Health conditions which improved greatly in the past are now beginning to decline again, leaving Indians to face increasingly poor health as well as deteriorating housing conditions. Yet the Administration's FY 88 budget proposes significant reductions in all of the vitally necessary housing programs presently operating in Indian country.

## HUD Indian Housing Programs

The 1937 Housing Act, as amended, provides the authority for HUD to assist local housing authorities to construct and manage housing projects in urban and rural areas. It was not until the 1960s that Indian communities were included for assistance, even though some of the nation's worst housing conditions prevailed there. Indians still have the highest rate of substandard housing in the United States, yet this budget seriously diminishes existing HUD programs and leaves Indians with no alternative resources other than BIA HIP, which will be cut by nearly one quarter from the FY 87 level. New construction will be prohibited, and program activites will be restricted to housing rehabilitation only.

In addition to reducing development money for new homes, the Administration is proposing a severe cutback in modernization funds for Public and Indian housing. Recapture of units that are no longer financially feasible is planned. Recaptured funds will be proposed for rescission; that is, they will be returned to the U.S. Treasury and not reprogrammed for reuse in Indian housing projects.

As part of the FY 87 Continuing Resolution, Congress approved the reuse of Indian housing development and modernization funds recaptured during FY 1987. Now, in its FY 1988 Budget Summary, HUD has announced that "(l)anguage also is being proposed for the rescission of any authority recaptured during 1988".

Such an action would be extremely detrimental. HUD has announced an accelerated recapture policy, with some 2,000 units at risk. Since development appropriations have remained static at approximately 2,000 units per year over the past several years, new units developed do not keep pace with the increasing need.

Accelerated recapture of units without reuse will deplete the pipeline and take away funds duly appropriated by Congress and obligated by HUD to tribes. We strongly urge the Committee to approve the permanent reuse of Indian housing funds recaptured from the development pipeline.

At its annual meeting in June, 1986, the National American Indian Housing Council (NAIHC), an organization made up of the vast majority of Indian housing authorities, approved a resolution calling for the reuse of recaptured funds, and the appropriation of at least 6,000 new units of Indian housing each year. We strongly support that resolution. The modernization and operating subsidies "shifts of funds availability" contained in the FY 88 budget should also be rejected in favor of full funding at FY 87 appropriated levels.

The rationale of deficit reduction is offset by the escalating need for improved housing throughout Indian country. Only by a serious commitment on the part of both the Congress and the Administration will the problems of substandard housing in Indian country be resolved.

## The 30% Rule and Rent Ceilings

In 1969, the Brooke Amendment set a rate of 25% of annual income, after certain deductions, as the minimum rent which a family must pay to occupy a unit of public (including Indian) rental housing. Amendments in 1981 and 1983 changed that rate to 30% and limited the discretion which the Secretary of HUD could exercise in determining the exclusions to income to calculate this 30%. While the Secretary can determine what constitutes "income," there is no discretion on his part to decide which deductions to allow from such income to calculate adjusted income. HUD's position is that it has no discretion to waive the statutory requirements of the 30% rule as enunciated in the amendments and the 1984 regulations.

The result of HUD's lack of discretion in applying the 30% rule without a rent ceiling causes hardships for Indian families in a number of ways. First, there is little or no private market rental housing on Indian reservations. In an urban, non-Indian setting, if a family's income rises above a certain level, that family will often choose to seek other competitively priced housing on the private market, thus freeing public housing units for occupancy by those for whom it is intended - the poorest families. On Indian reservations the lack of sufficient housing of any kind prevents families from going elsewhere. While no true middle class or a major segment of moderate-income families exists, those few who are beginning to break the bonds of poverty are penalized by paying rents far in excess of the fair market value of comparable units.

Far more common, however, is the problem of extended families and overcrowding. Since shelter is in such short supply, many Indian housing units are occupied by large numbers of people. HUD requires that all family members' incomes be calculated into annual income determinations. As a result, some families living in dangerously overcrowded conditions must pay premium prices for the privilege. When several family members work, their incomes are calculated into the rental rate. Without a cap on maximum rents, payments can rise far above the true value of the unit.

While this is a theoretically equitable approach, when rents rise above the fair market rental value of the unit, the family is penalized for its success and must often move off the reservation to locate reasonably priced housing. Ceiling rents must be established by IHAs for their units. Otherwise, Indian families pay excessive amounts for substandard accommodations. Each IHA should be given the authority to set its own rental rates.

There is strong support throughout Indian country to enact some form of equitable relief. Rent ceilings tied to representative indicators of local fair market rents could work, but reliable indicators applicable within Indian country do not exist. Allowing each Indian housing authority to set rent ceilings by family size and unit, with the approval of HUD, would be the most efficient solution to the problem. However, HUD asserts that it lacks the administrative discretion to alter current regulations without specific legislative authority.

H.R.4, the Housing Act of 1987, and H.R.376 both contain provisions to accomplish these objectives. We urge the committee to examine these provisions and to include them in the final version of the bill you are now considering.

In conclusion, I wish to thank the committee for this opportunity to appear before you. I again urge the committee to pass an authorization bill and to reject proposals designed to cut the FmHA programs and those for Native Americans.

I would be happy to respond to any questions you may have.

# NATIONAL RURAL HOUSING COALITION

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Statement of Moises Loza, Chairman

National Rural Housing Coalition

Before the Subcommittee on Housing and Urban Affairs of the

Committee on Banking, Housing and Urban Affairs

UNITED STATES SENATE

February 17, 1987

Mr. Chairman, I am Moises Loza, Chairman of the National Rural Housing Coalition (NRHC). NRHC is a national membership organization which advocates better housing for low-income rural households. We have appeared before this Committee many times in the past, and greatly appreciate the opportunity to testify again today.

The President's budget calls for the elimination of all current Farmers Home Administration (FmHA) rural housing programs to be replaced by a rural housing voucher program. In addition, it proposes drastic reductions for rural housing spending in the current fiscal year through a negative supplemental appropriation of loan funds and rescission of rural housing grant programs.

FmHA provides rural housing aid to low-income people in the form of subsidized loans, grants and rental assistance. Most FmHA aid is provided through Section 502 home ownership loans and Section 515 rural rental housing loans.

Through these programs, more then two million economically disadvantaged households have gained decent housing. The average annual income of Section 502 tenants is $11,100; Section 515 tenants have incomes of less than $8,000 per year.

These programs have served low-income people, and have been efficiently managed. The default rate in the rural housing portfolio is less than one percent and the 90 day delinquency rate on these programs is 1.1 percent.

During the period between 1970 and 1980, substandard housing in rural America decreased by nearly 42 percent. It is no coincidence that this decline occurred as the levels of federal rural housing loans and related assistance programs rose. Termination of these programs means an end to the progress made in solving the rural housing problem.

## Rural Housing Need

By any measure, there is a severe shortage of adequate affordable housing in rural America. A 1986 Agriculture Department study reports that more than two million rural Population of 2,500 or less) families live in substandard housing. Over seven million households live in substandard housing in non-metro areas.

In addition, there is a serious lack of credit in rural America. National per capita deposits in rural saving and loan associations (S&L) are approximately half the deposits made in metro areas. Five hundred (500) rural counties have no federally chartered S&Ls. Furthermore, where private credit is available, it is generally at higher rates and less favorable terms than in urban areas.

The farm crisis has exacerbated the lack of credit in rural areas. Agricultural banks (those with at least 17.5 percent of their loans to agriculture) constitute about 55 percent of all banks but accounted for more than half of the bank failures in 1984.

In rural America, subsidized credit is absolutely essential to improving the housing conditions of the poor. The high incidence of substandard housing, measured by lack of complete plumbing and overcrowding makes the FmHA production and repair program essential.

In rural areas today, there are:

- 2.1 million substandard housing units (substandard means without complete plumbing or with more than one person per room);

- 1.3 million units without complete plumbing;
- 2.8 million units without an adequate water source;
- 1.1 million units with incomplete kitchens;
- And 4.4. million units with inadequte heating.

## Administration Proposal

The Administration's FY 1988 budget would shift the emphasis of federal rural housing policy from new housing construction and rehabilitation to a voucher program. Rural housing production would drop from almost 70,000 units under FY 1987 appropriations to zero in FY 1988. The number of new households assisted will fall from about 60,000 in FY 1987 to less than 10,000 in FY 1988.

The Administration's proposed use of vouchers is based on the premise that an adequate supply of decent rental housing is available in rural America. This is not the case. In fact, there is a disproportionate amount of substandard housing in rural America, according to the Congressional Research Service (CRS), who report that rural rentals are twice as likely to be substandard as urban rental housing. Furthermore, vouchers are not a viable option for farmworkers, migrants or Indians, who do not have access to decent private-market housing.

Rural areas have 25 percent of all the nation's housing units--but 36 percent of the substandard units and 56 percent of the units with incomplete plumbing. In addition, there are another 300,000 substandard units in small urban areas (2,500 to 10,000 in population).

In addition, the Administration's proposal will not provide adequate shelter for the proposed 20,000 households, 12,000 units will be needed to renew rental assistance contracts which will expire in FY 1988.

Senator CRANSTON. Thank you very much for your very helpful testimony.

Now we will hear from Thomas R. Runquist, the President of First Centrum Corporation, East Lansing, Michigan. Mr. Runquist is also President of the Council for Rural Housing and Development, and he is accompanied by Charles Edson.

## STATEMENT OF THOMAS R. RUNQUIST, PRESIDENT, FIRST CENTRUM CORP., EAST LANSING, MI, AND PRESIDENT, COUNCIL FOR RURAL HOUSING AND DEVELOPMENT, ACCOMPANIED BY CHARLES EDSON

Mr. RUNQUIST. Thank you, Mr. Chairman, members of the subcommittee.

We would like to submit our written testimony for the record and will summarize very briefly the three major topics.

First, I would like to thank the committee for the opportunity to testify today and also to wish you the best in your new position as chairman.

Senator CRANSTON. Thank you.

Mr. RUNQUIST. I would like to discuss three topics today. One is the fiscal year 1988 authorization for the 515 Program and Rural Rental Assistance. The second is the Experimental Loan Guarantee Program, that was last year in Senate bill 2507, and finally the prepayment of section 515 loans.

For fiscal year 1987, Congress appropriated $669 million for the 515 Program, which is down from $900 million 5 years ago, and represents almost a 33-percent reduction in the actual total number of units from 30,000 units back then to under 20,000 units this year. So it is a relatively significant cut.

I assume you will be happy to know, Mr. Chairman, that we are not asking at this time, for restoration of that amount. We, like others, must sacrifice in trying to reduce the overall budget deficit; however, we are asking that in the light of the cuts the program has already suffered that we maintain the 1988 authorization at the 1987 levels.

### DELAY OF TREASURY REGULATIONS IMPEDE PROGRAM IMPLEMENTATION

What may surprise you, however, is that there is a major impediment to making this program work at all. As I am sure you are well aware, in a low-income housing program, we don't have the incentives of cash flow and appreciation, as you do in conventional real estate. In the past, we have had tax preferences. Congress saw to it last year that those tax preferences have been traded now for tax credits. These tax credits depend upon regulations from Treasury. Treasury has not given us those regulations, and they are not expected to be out until the end of summer.

That delay is just simply not right. One problem is that the projects are already going into service this year. Without those regulations whether those projects will get tax credits or not is really up in the air.

Second, in order to use the funding at all, developers must have some idea of whether or not those tax credits are going to become available.

So we would certainly urge the committee to help us to prod Treasury into getting those regulations out in a timely fashion.

The second item is guaranteed loans. The Senate bill 2507, last year, from this committee proposed a conventional financing demonstration program, a very good idea. It allows private loans to replace the Federal loans and thus helps in the overall budget impact.

The only further comment we have is that any future legislation should make sure that a guarantee is made available to those private loans, because, certainly, conventional lenders will not finance these jobs, those low-income projects in rural areas without that guarantee.

We are also very proud to say that in testimony 2 years ago we supported this concept and are happy to see that it has been incorporated in the bill.

Let's now discuss prepayments. Senator Cranston, we know that this is a major issue for you in California. It is a real problem there as it is in other areas. Last October, Congress prohibited the prepayment of section 515 loans on pre-1979 contracts. Although we certainly understand the reason for that measure was to preserve tenants' rights to live in decent housing, it also infringes on the owner's contractual rights to prepay—a right that is in both the note and the mortgage.

At earlier hearings, we suggested and still believe there is a simple and equitable solution. That is making section 8 certificates or vouchers available to the tenants, and providing section 515 new construction funds to those areas in which prepayment occurs.

We have also discussed other solutions with our good friends in nonprofit groups, and although we still believe the section 8 solution is a good one, we also think that if owners want to prepay, that they instead sell the project to nonprofit and for-profit organizations could be a fine solution, with some changes. One is to establish a fair market value using an appraisal mechanism that truly does make sure of that. Also there must be funds available for the buyout. Some other changes are outlined in our testimony.

I would like to thank you very much, Mr. Chairman, for the opportunity to share our thoughts with you today.

[The complete prepared statement of Thomas R. Runquist follows:]

Finally, vouchers are not the most cost effective method of assisting low-income housing. An interim Housing Assistance Council study on the cost of the Section 502 program indicates that the per unit subsidy cost -- $2,900 initially, dropped to an average of $890 per borrower -- compares favorably with voucher costs of $3,500 per year.

## Recommendations

### Authorization Levels

NRHC supports the continuation of current rural housing programs. We recommend that funding be maintained at the FY 1987 level or at those levels set in H.R.4.

### S. 2507

The following are comments on some of the provisions in S. 2507:

One proposed amendment modifies the definition of very low-income families to include the use of statewide non-metropolitan median income as a measure as well as the area median.

The 1983 Housing Amendments required FmHA to use the HUD area median income standards to define low-income (80 percent of median) and very low-income (50 percent median) households. The legislation also required FmHA to use other measures to improve assistance to very low-income households -- including implementation of a manufactured housing program and extension of the time on Section 502 loans.

The result has been that Section 502 funds are increasingly used to build units that are close to metropolitan areas -- where incomes are higher -- and a percent of Section 502 funds have gone unspent. The goal to serve very low-income households in remote rural areas where the incidence of substandard housing is greater is not being met.

In some rural counties, 50 percent of median is less than $8,000 -- an amount that is simply too low to afford current program loan. Consequently, lending is confined to those low-income households above $8,000, which are defined as low income. Many of these households, by any other measure, are very low-income.

The amendment will provide more flexibility in the definition of very low-income by allowing the higher of 50 percent of area median or the statewide non-metropolitan median. In a number of states surveyed, a significant number of them will have higher income limits under this amendment, and therefore, make full use of their Section 502 funds.

### Prepayment of Section 515 Rural Rental Housing Loans

Mr. Chairman, you were at the forefront of the 1986 effort to place a moratorium on the prepayment of Section 515 rental housing loans, along with Senators Wilson, Leahy, Stafford, Evans and others. Because of your leadership, no prepayment can be made before June 30, 1987. We hope to work with the Committee again to solve this difficult problem.

Prepayment is a serious problem. In the last three years, over 5,000 federally subsidized housing units have been lost, and thousands of elderly and disadvantaged families have been displaced. In California alone, over 1,000 units have been removed from the Section 515 program as a result of prepayment.

Low interest rates and confusion about low-income housing provisions of the tax reform legislation have resulted in a rush to prepay loans. When these loans are prepaid, the developer is no longer required to charge below-market rents. Low-income families or the elderly on fixed incomes have seen their rents double or triple when a project is prepaid. They are forced to pay higher rents or move.

The potential for further, massive displacements is great; more than 500 of the Section 515 projects currently in service (192,000 units) are eligible for prepayment. (Existing law requires any project financed after December, 1979, to be kept in service for 20 years.) The impact of prepayment on rural communities will be devastating. In one five county area in Washington, where 50 projects are eligible for prepayment, a great number of homeless elderly and low-income families may be displaced.

The National Rural Housing Coalition has two levels of concern. First, the displacement of low-income and elderly tenants. In many rural communities, Section 515 development is the only affordable rental housing available. If people are forced to move, there will be no affordable place in the community to live.

Our second concern is the preservation of low-income housing stock. This nation has invested millions of dollars to build almost 400,00 units of rural low-income housing. We have greatly improved living conditions in small towns through the Section 515 program.

It will cost two or three times over the initial investment to replace the 150,000 units in the 505 projects of Section 515 currently in service. In these tight budgetary times, can we afford this?

We recognize that builders and developers also have an interest in how this prepayment issue is resolved, and have worked to develop a plan that respects industry interests as well as tenant interests.

We support the creation of a subsidized guranteed loan program to permit Section 515 owners to sell their projects at fair market value to public or private nonprofit corporations. Key features of our plan include:

a) Any owner of a pre-1979 project wishing to prepay a Section 515 loan will be permitted to sell their Section 515 project, at fair market value, only to a nonprofit organization or public body.

b) Financing: FmHA will finance the buyout of the owner by permitting the nonprofit to assume the balance of the original Section 515 loan. The difference between the original loan and the fair market value of the project will be financed through an FmHA subsidized guarantee on a private sector loan.

c) Tenant Rents: FmHA will be authorized to make subsidy payments through reimbursements to the Rural Housing Insurance Fund (RHIF). The level of subsidy payments will provide for:

i) current and future tenants with incomes at or below 50 percent of the median income (very low-income) and will pay no more than 30 percent of income for rent. (This may be modified to conform with tax law.)

ii) tenants residing in the project at the date of refinancing with incomes above 50 percent of the median will have their rents held harmless.

iii) tenants taking residency in the project after refinancing, with incomes above 50 percent of the median, will pay the basic rent or 30 percent of their income, whichever is higher.

The method of financing described above can be accomplished by amending the Housing Act of 1949. NRHC proposes extending the 30 percent rent to income rate to all very low income households residing in projects transferred after date of enactment or those entering new Section 515 projects after date of enactment of prepayment legislation.

Our plan has a number of benefits. Tenants may remain in their units, and owners of the projects enjoy a profit on their investment. Third, the low income housing stock is maintained through guaranteed loans.

In addition, many very low-income Section 515 tenants paying more than 50 percent of income for housing will receive some relief. The principle adopted by the Congress that very low-income households — those at 50 percent of median or below — pay not more 30 percent of income for housing is well established in the Section 8 program and public housing. As a matter of fairness, we believe this principal should also be applied to very low-income rural households.

Reuse of Recaptured Indian Housing Development Funds

As part of the FY 1987 Continuing Resolution, Congress approved the reuse of Indian housing development and modernization funds recaptured during FY 1987. Now, in its FY 1988 Budget Summary, HUD has announced that "language also is being proposed for the rescission of any authority recaptured during 1988."

Such an action would be extremely detrimental. HUD has announced an accelerated recapture policy, with up to 1,928 units at risk. Since development appropriations have remained static at approximately 2,000 units per year over the past several years, new units developed do not keep pace with the escalating need. The FY 1986 Bureau of Indian Affairs (BIA) Consolidated Housing Inventory charted the unmet housing need at 92,580 Indian families. This figure rose by 2,340 families from FY 1985. In 1970, it was 63,000. Accelerated recapture of units without reuse will deplete the pipeline and take away funds duly appropriated by Congress and obligated by HUD to tribes.

We strongly urge the Committee to approve the permanent reuse of Indian housing funds recaptured from the development pipeline. We also support the recent recommendations of the National American Indian Housing Council, which call for, among other things, the reuse of recaptured development funds, an authorization of at least 6,000 units of new Indian housing each year, and a ceiling rent for Indian rental housing to be set by each housing authority with the approval of HUD.

Thank you for this opportunity to appear before this Subcommittee. I will be happy to answer any questions you may have.

Council For Rural
Housing And Development

## STATEMENT OF THOMAS R. RUNQUIST, PRESIDENT
## COUNCIL FOR RURAL HOUSING AND DEVELOPMENT
## BEFORE THE HOUSING AND URBAN AFFAIRS SUBCOMMITTEE
## SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

Mr. Chairman and members of the Subcommittee, my name is Thomas R. Runquist, I am Chairman of First Centrum Corporation of East Lansing, Michigan. I am pleased to appear before you today in my capacity as President of the Council for Rural Housing and Development. I am accompanied by Charles L. Edson of Lane and Edson, P.C., Counsel to our organization.

The Council is a national association of more than 160 member organizations and eleven state associations actively involved in the construction and management of rental housing through the Farmers Home Administration's Section 515 program.

First, I would like to thank the Committee for the opportunity to testify and to extend our best wishes to the new Chairman, Senator Cranston, as well as to the new committee. The topics I will address are the FY 1987 authorization for the Section 515 program, the experimental guaranteed loan program set forth in S. 2507 and the very vexing question of Section 515 prepayments.

### FY 1988 Authorization

In FY 1987, Congress appropriated $669.9 million for the Section 515 program. This figure is down from the $900 plus million made available to FmHA just five short years ago. Taking inflation into account, this cut in funds translates into a cut in units for over 30,000 to just under 20,000.

Although we would obviously like restoration of the funding that has been cut away during the last five years of budget

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stringency, we do not make such a request in the face of the continued necessary efforts to eliminate the budget deficit. However, in view of the deep cuts that this program has already taken, we request that the program be reauthorized in FY 1988 at the FY 1987 level.

We should point out that there is one thing beyond our control that would impede full utilization of the FY 87 funds. As the Farmers Home program is a low-income program, virtually the only incentive for private investors to participate is the tax advantages offered by the Internal Revenue Code. As you are well aware, last year Congress repealed all of the existing tax preferences for low-income housing, and replaced them by the new low-income housing tax credit. Although we believe that the credit in combination with Section 515 will go far to make up for the loss of the old tax preferences, we are now facing a real problem in getting the credit off the ground. The Department of Treasury has not yet issued regulations and is not expected to do so until late summer. State housing agencies who administer the credit are just beginning their task and very few are prepared to make allocations at this time. These delays are creating a great hardship to Section 515 projects being placed in service this year that can now utilize the credit. Further, unless Section 515 developers have some assurance that the credit will be in place, they cannot feasibly develop projects under the program. The result would be a tragic loss of both scarce Section 515 subsidies and the tax credit as well.

Accordingly, we encourage this committee to use its good offices to prod Treasury into issuing the tax credit regulations as soon as possible. We are pleased to report that we have established a dialogue between ourselves, the Council of State Housing Agencies, other rural groups, and the FmHA to encourage an expeditious working relationship between the developer, FmHA and the administering state agency to achieve maximum utilization of the credit.

Guaranteed Loans

S.2507 reported by this committee last year contained a conventional financing demonstration allowing the FmHA to make interest subsidy payments with respect to conventional loans to buyers otherwise meeting the applicable program requirements. The demonstration was mandated for the Section 502 program and made optional for Section 515. We think that the demonstration is quite worthwhile. If private loan funds replace federal loan funds, there would be less of a budgetary impact, although the same result is now being reached through the sale of FmHA loans to the private sector. Any such legislation should make clear that the private loan would be eligible for guarantee by the FHA or by the FmHA. As a practical matter, most conventional lenders would be reluctant to participate in a lending program on low-income housing absent such federal guarantee.

We are proud to say that in my testimony before this Subcommittee two years ago, we advocated such a guarantee program and were most pleased to see that it was included in this S.2507. As an aside, in that same testimony, we also strongly recommended the sale of Section 515 loans into the private secondary market to relieve budget pressure. At that hearing, then OMB Director David Stockman, testifying on behalf of the Administration, strongly opposed the sale of such loans to relieve the budget deficit. This position seems quite ironic in view of the Administration's FY 1988 budget proposal of wholesale sale of loans into the private market to help meet the Gramm-Rudman-Hollings target.

Prepayment Issue

An issue that well may be addressed in housing legislation this year concerns the right of owners of Section 515 projects entered into before December 21, 1979 to prepay their obligations. As a matter of background, in Section 503 of the Housing and Community Development Amendments of 1979, the Congress amended Section 502(c) of the Housing Act of 1949 to prohibit the Secretary from accepting prepayment or loans made before or after enactment of that amendment for a 20 year period.

Immediately on passing the legislation, the majority of the members of Congress realized how extremely unfair it was to remove retroactively the owner's right to prepay in view of the fact that the note and mortgage contained no such restriction. Indeed, the legislation up to that point required such prepayment if the owner was financially able to do so. Reacting to these concerns, Congress took the very unusual step of repealing, in less than one year after enactment, the retroactive restriction on the owner's right to prepay pre-1979 contracts. This was the situation until last October, when Congress included in the FmHA appropriations bill a provision prohibiting the use of FmHA funds to accept prepayments for a period extending to June 30, 1987.

CRHD strongly opposed this provision as yet another attempt to retroactively infringe on the owner's right to prepay. At the same time, we understood that the impetus to the provision was to preserve the tenant's right to continue to live in decent housing. At the time, we suggested several alternatives, including the awarding of Section 8 Certificates or vouchers to the tenants, and the award of 515 new construction funds to areas where there had been prepayments. We still believe that utilizing these measures would mean continued housing while preserving the owner's contract right that was so dramatically vindicated by this Congress in 1980.

Since the passage of the provisions in the Appropriations Act temporarily banning prepayments, we have been discussing with our good friends in the groups that represent tenants and non-profits possible solutions to this problem. One suggestion which we believe has merit is a proposal which would require an owner seeking to prepay to instead sell the project at a fair market value to a purchasing entity that would covenant to keep the property in low-income usage. FmHA would guarantee private loans to provide the purchasing entity with the additional funding needed to buy the property.

Our major problem with this proposal is that it still abrogates the owner's right to pre-pay his/her loan as provided in the note and mortgage. However, we will favorably view such an approach provided that the legislation contains the following provisions:

- an appraisal mechanism that would assure that the owner would receive fair market value at its highest and best use,

- a provision that if FmHA does not have funds available to fund the buy-out, then the owner could pre-pay,

- that the owner can pre-pay if low-income occupancy is maintained for the original twenty year "lock-in" period, and

- that profit motivated as well as non profits can participate in the buy-out.

We believe that this new effort should be coupled with regulatory and legislative changes to encourage owners not to prepay their loans. Such incentives would include:

- Allowing the owners an 8% return on equity on today's value instead of on the original equity. For example, on a project with total development cost of $500,000 in 1976, the owner's return is limited to 8% of the original equity of 25,000 or $2,000 per year. That $2,000 has remained constant for an 11 year period, while inflation has cut its value to 1/3 of its 1976 worth. At the very least, FmHA should permit an 8% return on today's value of the original equity so that the owner's return in real dollars remains the same.

- FmHA should allow owners of projects that have both the Section 515 interest credit and Section 8 to voluntarily forego the interest credit. Accordingly, the FmHA loan would then be a market rate loan, and thus the 8% restriction on distribution would not apply. The present policy that the interest credit must remain in effect even though the Section 8 subsidy is sufficient for the project is wasteful of the precious interest credit subsidy.

If the committee wishes to address the pre-payment issue this year, CRHD stands ready to work with you, your very able staff and the other concerned groups to fashion a solution to this very thorny issue. Thank you very much for your consideration of our thoughts today.

I would be happy to answer any of your questions.

Senator CRANSTON. Thank you a great deal.

Mr. RUNQUIST. OK.

Senator CRANSTON. It is very helpful to have you with us.

Mr. Denning will now testify. He is president of the American Association of Retired Persons, Washington, DC. We welcome you.

## STATEMENT OF JOHN DENNING, PRESIDENT, AMERICAN ASSOCIATION OF RETIRED PERSONS, WASHINGTON, DC

Mr. DENNING. Thank you, Senator Cranston and members of the subcommittee.

On behalf of the American Association of Retired Persons, I thank you for this opportunity to express the association's views on the Housing and Community Development Act of 1987.

In a recent survey of AARP members and volunteer leaders opinions, the lack of affordable and suitable housing emerged as one of two most serious national issues affecting the elderly. With rents increasing, affordable units disappearing from the market and functional impairments making self-sufficiency more difficult, many elderly Americans are at a loss as to how to cope.

One AARP member, incidentally, from California, writes:

> I am forced to move in a few months because the old house I have rented from a mobile park for 12 years now is to be demolished to enlarge the park for spaces. I am frightened, as rents have gone beyond my reach. I am 86 years of age, living on SSI and Social Security, the amount of which is $535 a month. I am alone, no son or daughter. I am determined to stay out of the board and care places for the aged.

### AARP'S SIX RECOMMENDATIONS

AARP appreciates this committee's expressed intention to pass a housing bill. We ask that in constructing the bill, you consider the following six recommendations.

First, prevent the loss of privately owned, federally subsidized low-income housing projects through prepayment of mortgages and subsequent conversions to other uses.

All in all, we estimate that FmHA and HUD projects serving the elderly and eligible for prepayment within the decade ahead represent some 7 to 10 percent of all federally subsidized housing for older Americans.

Large-scale prepayments and resulting displacement would be disastrous for these vulnerable individuals and should not be permitted.

Second, retain the existing Section 8 Program as the primary form of rental assistance to low-income Americans. Replacing section 8 assistance with voucher diminishes the amount of subsidy to individuals, many of them elderly, and reduces the Federal commitment to respond to serious and persistent needs.

Third, reauthorize the Section 202 Housing for the Elderly and Handicapped Program at a level to support no less than 12,000 new units per year. Section 202 makes loans to nonprofit sponsors to construct housing with special features and services that would not be available to low-income older and disabled persons in the marketplace. These features include lowered counter tops, nonskid floors, grab bars, extrawide doorways and the nutrition and transportation services that allow them to main the fullest measure of independence and security.

Fourth, provide full operating and modernization funds for public housing and continued production in areas with shortages of low-income rental units. Elderly households occupy close to 40 percent of all public housing units. Good maintenance of these units is essential to provide a safe, healthy and crime-free environment.

Given the scarcity of affordable rental housing, the sale of public housing units makes no sense.

Fifth, permanently authorize and expand the Congregate Housing Services Program, commonly referred to as CHSP. CHSP was created 9 years ago to enable elderly residents of federally assisted housing to avoid unnecessary placement in a nursing home by providing them with nutritious meals and nonmedical services. Though proven effective, CHSP is still regarded as a demonstration and serves only 63 public housing and section 202 projects nationwide. It is long overdue for expansion to other low-income projects, where managers are struggling to cope with the phenomenon of aging in place.

And sixth, authorize a demonstration program of FHA insurance for home equity conversion mortgages, also known as reverse mortgages. Reverse mortgages allow older homeowners to convert the equity in their home to additional cash resources while letting them remain in their home. Loan funds can be used for anything from financing home repairs to obtaining in-home health care.

AARP urges the committee to adopt the proposed amendment by Senators Heinz and Glenn to establish an FHA Insurance Demonstration Program which would insure private lenders and homeowners against default, guaranteeing that the older homeowner could remain at a home until death or the sale of their home.

Mr. Chairman, AARP commends the committee for holding these hearings, and we look forward to working with you in addressing housing needs for low-income and older Americans.

[The complete statement of John Denning and AARP newsletter follow:]

AARP

STATEMENT OF

THE AMERICAN ASSOCIATION OF RETIRED PERSONS

ON

THE HOUSING AND COMMUNITY DEVELOPMENT
ACT OF 1987

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

U.S. SENATE

FEBRUARY 17, 1987

American Association of Retired Persons 1909 K Street, N.W., Washington, D.C. 20049 (202) 872-4700

John T. Denning *President* Cyril F. Brickfield *Executive Director*

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Mr. Chairman, I am John Denning, President of the American Association of Retired Persons (AARP). AARP is a membership organization of over 24 million older persons. We appreciate the opportunity to testify on the Housing and Community Development Act of 1987. Our recommendations can be summarized as follows:

- Prevent the potential loss of some 154,000 FmHA 515, HUD section 221(d)(3) and Section 236 low income rental units occupied by older persons to market-rate and condominium conversions or demolition.
- Retain the section 8 Existing program as the primary form of rental assistance for low income Americans.
- Reauthorize the Section 202 Housing for the Elderly and Handicapped program at a level to support at least 12,000 new units per year.
- Provide full operating and modernization funds for public housing. Continue production of public housing in areas with shortages of low income rental units.
- Permanently authorize and expand the Congregate Housing Services Program.
- Authorize a demonstration program of FHA insurance for Home Equity Conversion (HEC) mortgages.

In a recent survey of our member and volunteer leader opinions, the lack of affordable housing emerged as one of two most serious national issues affecting older persons. While great progress has been made in improving the housing conditions of older persons, too many still cannot find or afford suitable housing. AARP believes the federal government must renew its commitment to the goal of decent, affordable housing for all Americans. This year's housing authorization bill should provide a start for this effort. I would like to highlight several issues that AARP feels the committee should consider.

Maintaining the Current Inventory of Assisted Housing

AARP is very concerned about potential reductions in the current inventory of assisted housing due to the prepayment of federally subsidized mortgages, termination of section 8 rental subsidies and the sale of public housing units. A reduction in the number of available low-rent units is unacceptable, given current unmet needs. To replace these units would be extremely expensive at today's construction costs.

Prepayment of federally subsidized mortgages threatens to displace thousands of low-income and older tenants living in multi-family projects produced under-the FmHA Section 515 Rural Rental, HUD Section

221(d)(3) Below Market Interest Rate (BMIR), and HUD Section 236 Rent Subsidy Programs. Current contracts require that the HUD units be limited to low-income tenants for a forty-year period, but certain owners may prepay the mortgage after twenty years, terminating all restrictions on use of the property. In the case of FmHA Section 515 units built prior to 1979, loans can be prepaid at any time without agency approval.

Large scale prepayments by owners would be disastrous for many older persons. Approximately 46.9 percent of all Section 515 units, 12.8 percent of Section 236 and 7 percent of 221(d)(3) BMIR units are occupied by older persons. According to a recent GAO report, 143,530 FmHA Section 515 rural rental units built before 1979 can be prepaid immediately without agency approval. Another 131,639 Section 515 units would be eligible after 1999. In addition, at least 217,544 units (53,850 Section 221(d)(3) and 163,694 Section 236) will be eligible for prepayment without HUD approval between 1986 and 1995. All in all, we estimate that FmHA and HUD projects serving the elderly and eligible for prepayment within the decade ahead represent, conservatively, 7 to 10 percent of all federally subsidized housing for older Americans. Congress acted last year to impose a temporary moratorium on prepayment of some of these loans, but a long term solution is needed.

The human dimension of this problem was illustrated last year in Sonoma, California and Marysville, Washington where mortgages on two FmHA 515 projects were prepaid. Older tenants faced rent increases well beyond their means and local housing authorities were only able to find them housing by denying assistance to other older persons who had been on waiting lists for 2 years or more. The resources now available to FmHA and HUD are insufficient to address potential problems if prepayments commence on a large scale.

AARP believes that in developing federal policy with respect to prepayment, the hardship to which current tenants are exposed should be a major consideration. To avoid subjecting low-income older individuals and others to traumatic displacements, the Congress should consider the following actions:

- FmHA and HUD should contact owners of projects to ascertain their intentions. Owner decisions may well hinge on FmHA/HUD's flexibility in considering mortgage modifications, sale proposals, and transfers of physical assets (TPA's). These transactions have been used to provide capital to meet deferred maintenance or rehabilitation needs. They can be significant to many projects with low replacement reserves and can also serve as leverage for HUD to gain concessions regarding tenant income characteristics.

- Offer owners low interest loans to rehabilitate older projects in return for maintaining them as low-income housing;

- require HUD to certify that the sale or conversion of any units would not lead to displacement;

- require that tenants be given first option to purchase units as low-income, limited equity cooperatives, or permit sale only to nonprofit organizations or public bodies that would agree to maintain units as low-income housing; and

- recapture a portion of the proceeds from the sale of prepaid projects for an emergency housing fund to finance replacement housing for units lost.

A proposal developed by the National Rural Housing Coalition would authorize FmHA to finance non-profit buyouts of Section 515 projects whose owners were considering prepayment. AARP believes this proposal is a sound one which deserves your support.

The Section 8 program provides rental assistance to make up the difference between the fair market rent, determined by the Department of Housing and Urban Development (HUD), and 30 percent of a tenant's income. Some 491,000 Section 8 certificates are now available to elderly households. Non-renewal of Section 8 contracts could result in a loss by 1995 of 600,000 to 1 million units from the low-income housing inventory, including many now occupied by elderly holders of these certificates. It is critical that this assistance be preserved.

HUD has indicated its intention to replace the expiring Section 8 rental subsidies with housing vouchers, a policy which AARP considers much less desirable. Such a change would trigger rent increases for many low-income tenants, since voucher payments are less generous and may be adjusted only twice during a five year contract period, whereas Section 8 rent subsidies are updated annually. The notion of the voucher providing a "shopper's incentive" is of dubious validity in a tight housing market; it is absurdly inappropriate when applied to special populations like the elderly and disabled, as those with mobility limitations can hardly compete with more able-bodied persons in finding affordable and suitable units. In addition, the voucher is not likely to provide enough subsidy to induce many owners with loans eligible for prepayment to retain their properties as low-income housing.

A concern for preserving the low-income housing inventory also argues strongly against the sale of public housing. Instead, AARP supports full funding of public housing modernization, maintenance and operating subsidies to help arrest deterioration of public housing stock and to provide a safer and less crime-prone environment for tenants. Elderly households currently occupy close to 40 percent of all public housing units. Recognizing the unevenness of housing conditions around the country, AARP believes priority for new development should be given to areas with very low vacancy rates.

## Expanding Housing Options for Older Americans

Housing choices available to older Americans, particularly those with low incomes, are too limited. In many areas, long waiting lists exist for federally assisted senior housing projects. A related problem is the poor condition and unsuitability of much housing presently occupied by older households. The Section 202 program is the major federally funded production program for housing designed especially for older persons. AARP believes continuation of this program is vital to expanding housing options for older persons. We support an authorization level to provide at least 12,000 new units per year.

The majority of older Americans, including those of low-income, own their own homes. However, there is little assistance available to those older homeowners who need help with maintenance, modifications to compensate for physical limitations or in-home support. More than 40 percent of elderly homeowners have persistently high housing cost burdens for maintenance, repair and utility costs -- triple the percentage for all homeowners.

Home equity conversion (HEC) enables older homeowners to convert the equity in their homes into additional cash resources while still living in the residence. Besides ensuring continued familiar surroundings, home equity conversion can potentially finance home maintenance, in-home health care or support services. HEC mechanisms have been used on a limited basis and there is substantial interest in the concept among older homeowners. However, lenders have been unwilling to offer such mechanisms as a regular financial service because they are viewed as new and untested. Conventional long term mortgages faced the same problem at one time; they became acceptable, however, once FHA insurance was provided.

Last year, the House passed an amendment to H.R. 1 which would have established a 5-year demonstration program of federal insurance for home equity conversion mortgages, also known as reverse mortgages, for older homeowners. A similar proposal was to have been offered in the Senate by Senators Heinz and Glenn. Under this proposal, up to 2,500 federally insured mortgages could be written by authorized lenders with FHA insurance to protect both lenders and homeowners against risks such as default or eviction. An older homeowner would be guaranteed the right to remain in his or her home until death or sale of the house.

AARP believes that this demonstration program will be very valuable in developing viable reverse mortgage instruments to assist older homeowners who are "house rich, but cash poor." Although we do not know exactly how many of these households there are, many among the 4.5 million single older homeowners will fall into this category. Among existing reverse mortgage programs, homeowner-borrowers are typically single females, with an average age of 75, and annual income of less than $10,000.

AARP urges the committee to include the reverse mortgage insurance demonstration program in its housing authorization bill.

## Housing with Support Services

Housing for older persons involves more than just bricks and mortar. Individual physical limitations dictate, to a large extent, the composition of housing services required by older persons. Approximately one out of five persons aged 65 or older has at least a mild degree of disability, and the likelihood of becoming disabled increases with age. For example, 46% of those aged 85 and over are functionally impaired, compared with 13% of those aged 65-74. An older person's housing environment can either enhance mobility and independence or add stress to an already impaired individual.

Support services enable older persons who can no longer live without assistance but do not require extensive medical supervision to "age in place". One of the unresolved challenges of housing for older persons is the accommodation of in-home supportive services. The population aged 75 and over is projected to grow by 51 percent from 1980 to 2005. While individuals in this group are clearly at risk of becoming institutionalized, they can live independently in their own communities with appropriate services. Among non-institutionalized individuals over age 85, 43 percent need some sort of aid in daily function either from family, friends, or professionals. This aid may range from help in preparing food and dispensing medicine, to assistance with walking, or supplying transportation.

A large number of older tenants living in federally assisted housing (1.7 million older households) would benefit from support services since they have few, if any, alternatives to their current residences. The Congregate Housing Services Program (CHSP) provides nutrition, housekeeping and personal care assistance to elderly and disabled persons in public and section 202 housing. However, the program only serves 62 housing projects nationwide.

AARP believes that the CHSP should be permanently authorized and expanded. A recent comprehensive evaluation of the program shows that it is not only highly successful in improving recipients' quality of life, but offers a viable, cost-effective alternative for many current nursing home residents and frail elderly tenants of public housing. AARP supports an authorization level of at least $30 million for FY 88. Further, we recommend a part of these funds be used to finance a an independent study conducted by a university or qualifed research entity to:

1) Document the number of elderly in federally assisted housing at risk of institutionalization.

2) Study alternative delivery systems in the states, including CHSP, to provide services to older persons in congregate and assisted housing.
3) To assess existing and potential financial resources at

the federal, state and local levels for the support of congregate housing services.

AARP believes such a study would be useful in clarifying the needs of older persons in assisted housing and would serve as a blueprint for integrating federal and state efforts in the provision of congregate support services.

## Conclusion

By 1995, 6 million additional older households will be formed. Three-fourths of this increase will be among those aged 75 and older. Many of these households will be poor and will require support services to remain living independently.

The nation is ill-prepared to meet the needs of these future households or the millions of older families that are currently aging in place. Despite this fact, efforts to house low income and vulnerable Americans have been drastically reduced at the federal level. AARP believes it is essential to take another look at the nation's housing problems and see how a better job can be done.

AARP commends the committee for holding these hearings and expressing its intention to pass a housing authorization bill. We look forward to working with you in addressing these pressing national housing problems.

Thank you.

Senator CRANSTON. Thank you very, very much.

Let me repeat the questions I put to the other panelists.

### A LOOK AT THE ADMINISTRATION'S PROPOSALS

First, are there any parts of the administration's proposal that you feel are necessary and should be included in the bill?

Mr. RUNQUIST. We have no problems with the proposed vouchers as long as such a program includes the section 515 production program in rural areas. In rural areas, there is a twofold problem. Affordability is one of them and the other is availablility.

Senator CRANSTON. What I was specifically asking, is there any part of the administration's proposal that you feel we should include on March 3?

Mr. EDSON. Yes, Mr. Chairman. The administration did propose vouchers actually be set aside to be administered by Farmers Home in rural areas. We think that is a good idea, as long as you keep the production program, section 515, because in some cases, you may want to use the vouchers in conjunction with the production program.

Senator CRANSTON. Thank you.

In a nutshell, what would be the impact on the people you represent, the groups that you are hoping to help get housing, if we adopt the administration's proposals into the bill?

Mr. WILSON. Mr. Chairman, if the budget suggestions are adopted that the administration has suggested, the word that would have to be used would be a disaster for rural communities. Farmers Home Administration housing programs have been an effective and beneficial set of programs since they were created a number of years ago. They have consistently served lower income people. They have tried to reach lower on the income scale, and a study that the Housing Assistance Council has been conducting indicates that even the section 502 Homeownership Program has been a very effective tool in helping to serve low-income families by providing a home for them. To eliminate these programs would be an unmitigated disaster for the needs that we face in rural communities.

Mr. LOZA. If I may reiterate, we figure that with the 1987 appropriation levels, it is possible that about 70,000 familes or households would be helped. A shift of that to a Voucher Program would raise a real problem. We have seen studies that show the rural communities, the more isolated communities, do not have the required standard housing available to house those people.

There is a real question whether it would work at all. And there are pockets of poverty in Appalachia, groups of people who are farm workers, the Indian people, and others with serious problems.

So any shift from the existing programs to a Voucher Program for the rural communities would be a real disaster.

Senator CRANSTON. Mr. Denning?

Mr. DENNING. I think there is one other thing that it ignores, and that is the elderly and the disabled, and particularly the elderly population in the 85-year-old bracket and above. That group includes some of the poorest people we have in society today, and a lot of those people live alone and simply do not have the ability to meet the needs of life. And I think we have to recognize the demographics, because this 85-plus population is doubling every 10 years, and the 75-plus population will increase 51 percent between 1980 and 2005.

I think we have to recognize these demographics in our planning for the future.

You may recall that in the 1981 Aging Conference, we called for 200,000 new housing units for older households each year, including 20,000 units per year of section 202. Because of these demographics, I think we have to go back and pick up these pieces and put them together in our planning for the future.

Senator CRANSTON. Thank you very much.

Let me add that I would like to get any comments that you have in relation to S. 2507, the bill reported last year, since that will be the general base for our new legislation.

If there are any elements of that bill that you feel should be revised or provisions not included, that you feel are urgent and need to be added, apart from the longer range bill, please let us hear from you within 1 week on that score.

Senator Sasser, we are delighted you are here.

Do you have any comments or questions?

Senator SASSER. Well, Mr. Chairman, I want to express my appreciation to you for convening these hearings today on a very important matter, one that I think is critical and crucial at this time, given the housing problems that we are having in this country.

Let me just direct one question to Mr. Denning, if I may.

Mr. Denning, I understand that you made some strong comments in support of the Congregate Housing Program; is that right?

Mr. DENNING. Yes, sir.

Senator SASSER. Well, you note that 62 housing programs nationwide are served by this particular program. What has been the evaluation of the services provided by the program and how do the elderly fare in projects where these services are not available?

Mr. DENNING. Well, I think you recognize that the purpose of CHSP is to prevent inappropriate placement of frail, low-income older persons in nursing homes, providing them instead with nutrition and nonmedical services in their own homes. Elderly residents of public housing and section 202 projects that do not offer CHSP services face a dilemma: as problems develop in managing basic daily tasks due to the onset of chronic disabilities, they must either seek supportive services in the community, which may be either unavailable or poorly coordinated with assisted housing, or they face placement elsewhere—such as in a nursing home—because their needs cannot be met where they are. With the great shortage of nursing home beds today, even that option—however inappropriate and expensive—may be unavailable. In such a case, the individual's condition may simply deteriorate to the point where isolation and, ultimately, hospitalization may occur. Obviously, this represents a serious problem for housing managers as well as residents.

As to what evaluation has been done, we have some positive results to report. A study commissioned by Congress in late 1980 and released by HUD in 1986 showed that in the second year of its existence, the program "did start to have an impact" in preventing premature institutionalization, and that "as the population deteriorated, the program began to fill a real need" which was expected to increase over time. More dramatically, the study revealed a huge increase in the transfer of residents from nursing homes to congregate housing sites—with the proportion of deinstitutionalized persons moving from nursing homes to CHSP sites five times higher than that of those moving to non-CHSP sites. This indicates that CHSP offers a viable alternative for many current nursing home residents as well as frail elderly tenants of subsidized housing who can no longer live without assistance, but don't require expensive medical supervision.

Strangely, the Executive Summary and Final Report of the HUD study suggested that the program was not successful in preventing institutionalization. This interpretation is not supported either by study findings or by subsequent program results. We can only conclude that the study data was misinterpreted and misused to justify a policy calling for termination of the program. AARP has already expressed its acute disappointment with the Department's statements on this matter and we have called instead for the continuation, improvement and careful expansion of the Congregate Housing Services Program.

Senator **SASSER**. I have no more questions, Mr. Chairman.

Thank you very much, gentlemen.

Senator **CRANSTON**. Thank you.

I thank each of you for your presence, and for your testimony. It has been very helpful.

That will conclude today's hearing. We will have another hearing on Thursday afternoon of this week, February 19 at 1:30, but we adjourn until that time.

[Whereupon at 12:30 p.m., the hearing was adjourned.]

[Responses to Senator Cranston's request for additional comments to S. 2507 from the witnesses follow:]

AARP NEWS

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February 17, 1987

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## AARP TESTIFIES ON HOUSING PROGRAM BILL

WASHINGTON, D.C. -- The lack of affordable and suitable housing is one of the most serious issues affecting the elderly, the president of the American Association of Retired Persons (AARP) told a Senate panel today.

AARP National President John Denning of Clinton, N.C., testified before the Senate Banking Subcommittee on Housing and Urban Affairs, which is holding hearings about reauthorization of federal housing programs.

"In a recent survey of AARP members and volunteer leaders, the lack of affordable housing emerged as one of the two most serious national issues affecting older persons," Denning said.

Noting that elderly households occupy close to 40 percent of all public housing units, Denning called upon the Senate panel to consider the following six recommendations when drafting its housing bill:

(1) Prevent the loss of privately owned, federally subsidized low-income housing projects that would result from prepayment of mortgages and subsequent conversion of those projects to other uses. Between 7 and 10 percent of all FmHA and U.S. Housing and Urban Development projects serving the elderly will be eligible for prepayment within the next decade, Denning said.

(2) Retain the existing Section 8 program as the primary form of rental assistance to low-income Americans. Denning said that AARP opposes proposals to replace Section 8 assistance with vouchers because "it diminishes the amount of subsidy to individuals, many of them elderly."

(3) Require that at least 12,000 new units of Section 202 housing be constructed each year. Section 202 makes loans to non-profit sponsors who construct housing with special features and services that would not be available otherwise to low-income older and disabled persons.

(4) Provide full operating and modernization funds for public housing. "Good maintenance of these units is essential to provide a safe, healthy and crime-free environment," Denning said. "Given the scarcity of affordable rental housing, the sale of public housing units makes no sense."

(5) Permanently authorize and expand the Congregate Housing Services Program, which provides elderly residents of federally assisted housing with nutritious meals and non-medical services in an effort to help them avoid costly nursing home stays.

(6) Help older homeowners to convert the equity in their homes into additional cash resources by authorizing a demonstration program of Federal Housing Administration (FHA) insurance for home equity conversion mortgages.

With more than 24 million members, AARP is the nation's largest organization of Americans 50 and older. It is a non-profit, non-partisan organization which offers a wide range of membership benefits, legislative representation at the federal and state levels, and educational and community service programs carried out through a national network of volunteers and local chapters. The association also offers a variety of educational and advocacy programs for older workers, who make up one-fourth of AARPs membership. AARPs headquarters are in Washington, D.C.

# # #

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February 19, 1987

The Honorable Alan Cranston
Chairman, Subcommittee on
Housing and Urban Affairs
SD-535 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Cranston:

During the hearings of February 17, 1987, at which I was privileged to testify on behalf of the National Rural Housing Coalition, you requested our legislative proposals. Enclosed is a set of our proposals for amending and improving the Farmers Home Administration (FmHA) rural housing programs. Included is explanatory language and appropriate citations to the law.

Please feel free to contact me if I can be of further assistance. On behalf of the National Rural Housing Coalition, I wish to express our appreciation for your dedication and commitment to addressing the housing needs of rural low-income people.

Sincerely,

Moises Loza
Chairman

ML/lr

Enclosure

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## The Rural Housing Amendments of 1987

The National Rural Housing Coalition (NRHC) proposes a number of technical and clarifying amendments to Title V of the Housing Act of 1949, together with suggested report language. These are intended to correct deficiencies and/or overcome unnecessary impediments to sound use of the rural housing programs.

A table of contents identifies the amendments by single family, multifamily or cross cutting grouping. Following those for authorizations, prepayment and loan packaging all other amendments are listed in order by section number.

# Rural Housing Amendments of 1987

A. **Cross Cutting Amendments**:

1. Sec. 501(b)(2) - Leaseholds and community land trusts
2. Sec. 501(b)(4) - Very low-income definition
3. Sec. 501(h) - Loan packaging by public and private non-profit organizations
4. Sec. 509(a) - Eligible location of housing development. Report language
5. Sec. 510(g) - FmHA Appeal Procedure
6. Sec. 513 - Program levels and authorization

B. **Single Family Housing Amendments:**

1. Sec. 501(b)(2) - Limited equity demonstration
2. Sec. 501(e) - Escrowing taxes and insurance
3. Sec. 510(c) - Debt settlement and adjustment of single family housing loans
4. Sec. 517(j) - Costs in transferring loans

C. **Multifamily Housing Amendments:**

1. Sec. 514(h) - Need and demand for farm labor housing. Report language
2. Sec. 515 - Uniform data for determining priority. Report language
3. Sec. 515(c) - Limitation on eligibility due to prepayment of loans
4. Sec. 515(m) - Location of Section 515 projects. Report language
5. Sec. 515(p) - State and federal minimum occupancy restrictions
6. Sec. 516(g) - Farm labor housing appraisal

D. **Appropriations Legislation**:

Report language - relevant to eligibility of low income applicants who temporarily do not need subsidy because of state supplmental grant programs.

## Programs Levels and Authorizations

Section 513 is amended by deleting it in its entirety and iserting in lieu thereof the following:

"Sec. 513(a)(1) The Secretary may insure and guarantee loans under this title during fiscal years 1988 in an aggregate amount of $2,333,000,000 as follows:

A. for insured or guaranteed loans under section 502 on behalf of borrowers receiving assistance under Section 521(a)(1), $1,400,000,000;

B. for loans under section 504, $ 12,000,000;

C. for insured loans under Section 514, $20,000,000;

D. for insured loans under Section 515, $850,000,000;

E. for insured moderate rental rehabilitation loans under Section 515(r), $50,000,000; and

F. for site loans under Section 524, $1,000,000,000;

(b) there are authorized to be appropriated for Fiscal Year 1988, and to remain available until expended -

(1) for grants under Section 504 $ 20,000,000

(2) for purposes of section 509(c) $1,000,000;

(3) such sums as may be necessary to meet payments on notes or other obligations issued by the Secretary under Section 511 equal to:

(a) the aggregate of the contributions made by the Secretary in the form of credit on principal due on loans made pursuant to Section 503; and

(b) the interest due on a similar sum represented by notes or other obligations issued by the Secretary;

(4) for financial assistance under Section 516, $20,000,000;

(5) for grants under Section 523(f) $15,000,000; and

(6) for grants under Section 533, $100,000,000;

(c) the Secretary, to the extent approved in Appropriations Acts for fiscal year 1986, may enter into rental assistance payment contracts under Section 521(a)(2)(A) aggregating $263,000,000

(d) Rental Housing Loan Authority - section 515(b)(4) of the Housing Act of 1949 is amended by striking out "September 30, 1987" and inserting in lieu thereof "September 30, 1988".

(e) Mutual and Self-Help Housing Loan Authority. -

(1) Section 523(f) of the Housing Act of 1949 is amended by striking out "September 30, 1987" and inserting in lieu thereof "September 30, 1988".

(2) Section 523(g) of the Housing Act of 1949 is amended by striking out "fiscal year 1987" and inserting in lieu thereof "fiscal year 1988."

Report Language.

The requirements of Section 513(a)(1)(A) do not preclude the making of Section 502 loans to low and very low-income applicants who initially do not need assistance under Section 521(a)(1), initially, because of the use of State Supplemental Grant programs, but who are unable to obtain other credit and the need

## Loan Packaging by Nonprofit Organizations

Section 501 of this Title is amended by adding at the end thereof the following new subsection:

> "(h) For the purposes of this Title the term development cost shall include the packaging of loan and grant applications and actions related thereto by public and private nonprofit organizations tax exempt under Section 501(c)(3) of the Internal Revenue Code."

### Justification

Nonprofit organizations have historically assisted low and very-low income families and persons obtain decent, safe and sanitary housing by packaging applications in their behalf. In the past nonprofit organizations providing such services have carried out these activities at no direct cost by virtue of administrative funding through other sources. As such funding has become less available, nonprofit organizations must look also to the market place for administrative revenues that will enable them to provide indespensable services. While contractors and developers include packaging within overall costs, FmHA regulations tend to prohibit the use of loan and grant funds for this necessary purpose. Applications are not generated without some effort and cost, and legitimate cost should be recognized and reimbursed.

It is intended that FmHA will pay only for reasonable cost involved in loan and grant packaging.

## Leaseholds and Community Land Trusts

Section 501(b)(2) of this title is amended by striking all after the word "any" as it first appears and substituting in lieu thereof the following:

> "--Public or private leasehold interest, including those in community owned land trusts, which the Secretary determines has an unexpired term (A) in the case of a loan for a period of time sufficiently beyond the repayment period of the loan to provide adequate security and reasonable probability of accomplishing the objectives of the loan, and (B) in the case of a grant for a period sufficient to accomplish the objectives for which the grant is made. The Secretary may make loans and grants on leaseholds which provide restrictions to perpetuate land use for low-income households, or which otherwise protect sound land use, but may not extend loans or grant on leaseholds which restrict occupancy based on race, creed, sex, religion, or because of any personal dislike of an individual applicant. The Secretary shall permit Indian tribes to restrict ownership of

the tribe or members

leasehold interests to members of the tribe."

Justification:

FmHA should be authorized to make loans to leaseholders on community land trusts. FmHA should make such loans a priority where leasehold status enables the FmHA mortgage to be affordable to households with lower incomes than those of other eligible borrowers in the service area, and in areas where land retention by low-income households is difficult because of heirs property problems, remote claims, increasing land taxes, and real estate pressures. A community land trust is defined as a legal entity, a quasi-public body, chartered to hold land in stewardship for all people present and future while protecting the legitimate use-rights of its residents. Residents have secure use-rights to the land and are free to control and build their own community through cooperative organizations or individual homesteads. While the land is held in trust, improvement are owned by the residents.

There is ample evidence that speculative pressures and rising land costs are contributing to displacement of low-income rural households. A land trust protects the land from being used for speculative purposes, and eliminates the speculative cost of land from subsequent sales. Given appropriate bylaws, land trusts may ensure the retention of housing stock for low-income rural residents. Although there are restrictions on the use of land by individual residents, these may be no more onerous than zoning ordinances, and are much less vulnerable to political considerations.

The threat of alienation of the land has been an impediment to better use of the FmHA Rural Housing Program's on Indian reservations. While FmHA officials have been willing to "voluntarily" and unofficially carry out liquidation actions in a manner designed to protect Indian land from alienation, there is no legal basis for such action. Indian tribal leaders cannot be faulted for their unwillingness to accept oral representation of federal policy and law; particularly in light of history. The amendment does not cure the entire problem, but will enhance the ability of FmHA to loan on tribal land.

## Limited Equity Demonstration

Section 501(b)(2) is amended by adding to the end thereof the following:

> "501(b)(2)---Notwithstanding the provisions of Section 502(b)(3) of this title, the Secretary may conduct a demonstration with owners of leasehold interests, including land trusts, where equity in both land and dwelling are limited in order to preserve affordability for future owners."

Justification:

There is considerable testimony available to the fact that increasing values are pricing moderate income families out of the unsubsidized housing market. The same forces are working against affordability for rural low income households, even with the availability of long term one percent mortgages. In 1970 the average initial Section 502 loan for a new dwelling was $12,990. This figure had risen to $43,143 by 1986. The demonstration would involve voluntary participation and limit equity to a very small and predetermined annual increase. This approach would insure the sellers financial ability to move elsewhere while maintaining sales cost at a level affordable by low income households.

## Proposed Amendment to Section 501(b)(4) of the Housing Act of 1949

Strike the period and add the following:

"Or 50 per centum of the statewide non-metropolitan income, as determined and adjusted by the Secretary, for very low income families, whichever is higher."

Explanation

The proposed amendment modifies the definition of very low income families to include the use of statewide non-metropolitan median income as a measure along with area median.

The 1983 Housing Amendments required FmHA to use HUD area median income standards to define low (80% of median) and very low (50% median) households. The legislation also required FmHA to take other measures to improve assistance to very low income households — including implementation of a manufactured housing program and extension of the time on Section 502 loans.

Because income affordability has a direct relationship to housing costs, Section 502 funds are increasingly used to build close to metropolitan areas — where incomes are higher — and a large percent of Section 502 funds have gone unspent. In FY'85, some $500 million, 54.3% of the funds available for very low income loans was not obligated.

In some rural counties, 50% of median is less than $8,000 -- an amount simply to low to afford a loan under the current program. Consequently, lending is confined to those with incomes above $8,000; households which are defined as low income. Many of these households, by any other measure, are very low income.

The amendment will provide more flexibility in the definition of very low income by allowing the higher of 50% of area median or the statewide non-metroplitan median. in 8 states surveyed, a significant number os tates will have higher income limits as a result of this amendment and will, therefore, be able to make full use of their Section 502 funds allocated for very low income.

FmHA has moved to implement provisions which enhance assistance to very low income households and is working on others. In the meantime, a measure of flexibility is needed to improve performance in the program.

## Escrowing Taxes and Insurance

Section 501(e) is amended by deleting it in its entirety and inserting in lieu therefo the following:

> "(e) The Secretary shall establish procedures whereby borrowers under this title are required to make periodic payments for the purpose of taxes, insurance, and other necessary expenses as the Secretary may deem appropriate. Notwithstanding any other provision of law, such payments shall not be considered public funds. The Secretary shall direct the disbursement of the funds at the appropriate time or times for the purposes for which the funds were escrowed. If the prepayments made by the borrower are not sufficient to pay to amount due, advances may be made by the Secretary to pay these costs in full, which advances shall be charged to the account of the borrower, bear interest and be payable in a timely fashion as determined by the Secretary. The Secretary sahll notify a borrower in writing when loan payments are delinquent."

Justification:

FmHA has been given a mandate by the Congress to escrow taxes and insurance on behalf of borrowing households. Despite the clear requirement of law, and a desire of agency field staff that escrowing be utilized, FmHA currently lacks the capability for performing this function on a national basis. Its national staff is exploring a contracting mechanism with which to implement the law. The Treasury Department has made a ruling that collection, by the government, of borrower payments for escrow makes such funds federal in character and can only be handled by a federal official. The Treasury ruling inhibits the ability of FmHA to use a contracting alternative to an agency operated central computer system, which, by most accounts, will not be functional for this purpose for a number of years.

The amendment will ensure that escrowed funds for payment of taxes and insurance are not classified as "public funds" and thereby avoid the restrictions Treasury has on handling of public funds. This will enable FmHA to contract for an industry-standard escrow system, which the agency has determined to be only feasible way for escrow to be handled in the foreseeable future. It will also permit FmHA to require borrowers to participate in an escrow system when implemented, by removing the permissive language "at the borrower's option." In order for FmHA to be able to enter into a viable contract for escrow the Agency must be able to control the number of borrowers who participate. That is, to be solely at the borrower's option would not assure a consistent number of participants. Unless a reasonably stable number of borrowers are participating, the cost of a contract might be prohibitive. For the lender to require escrow of tax and insurance funds is consistent with private-sector lenders' practices for home mortgage loans.

## Location of Rural Housing

### Report Language to Section 509(a)

The Committee expects that when issuing rules governing the location of housing development, pursuant to this title, will take into consideration normal community trends and employment patterns and the incidence of other federally financed housing, particularly in very rural or sparsely settled areas, or in areas where homes tend to be scattered rather than concentrated in communities containing all facilities and services.

### Justification

FmHA is consolidating policies for subdivision approval to essentially require that they be situated in residential towns or places which contain services such as shopping, medical facilities, churches, etc. While this concept has merit and will avoid financing disorderly or disruptive growth, it is very counter productive when implemented without consideration to the special residential patterns and needs of a given area. Some rural counties have populations which are almost entirely scattered and/or contained in small crossroad communities that are lacking in services. The rural people in such counties obtain services at urban centers or rural market towns which are usually located within a very reasonable communting distance. FmHA rigid interpretation of subdivision rules requiring location where services are is, in fact, disenfrachising those who live in truly rural areas. Their rural housing program will become unavailable to them unless they are willing to move to town.

## Debt Settlement

Section 510(c) is amended by deleting it in its entirety and substituting in lieu thereof the following:

> "(c) compromise, adjust reduce or charge off claims and obligations, and adjust, modify, subordinate or release the terms of security instruments, leases, contracts and agreements entered into or administered by the Farmers Home Administration under this title as circumstances may require. The Secretary may release borrowers or others obligated on a debt incurred under this title from personal liability with or without payment of any consideration at the time of the compromise, adjustment, reduction, or charge-off of any claim, except that no compromise, adjustment, reduction or charge-off of any claim may be made or carried out:
>
> (1) when it is a result of property having been sold for less than current market value, except when such sale was a foreclosure or bankruptcy sale; or
>
> (2) after the claim has been referred to the attorney general, unless the attorney general approves."

Language:

The new language conforms to that for debt setlement for Farmers Home Administration (FmHA) accounts under the Consolidated Farmers Home Act, as amended by the Food Security Act. It is necessary primarily to protect Section 502 borrowers who sell properties worth less than the FmHA debt. It also covers all loans made pursuant to Title V, filling a void that that exists for housing loans other than Section 502 and 504. FmHA had been relying on language in the consolidated Farmers Home Act to permit such actions where sales for amounts less than the mortgage indebtedness have been made to other than approved applicants. When amended by the Food Security Act that legislation became limited to that title. The existing Section 510 language is not sufficient to assist in the affore described situations.

There are areas where depressed economic conditions have caused FmHA financed housing not to appreciate, even depreciate, in value. When borrowers are forced to sell, either due to delinquency or the need to relocate, in such areas the choice of buyers is sometimes those ineligible for FmHA assistance or the government (voluntary conveyance). Borrowers selling in this situation and moving to another area would be saddled with a deficiency debt and severely hampered in their efforts to start over in a new location.

The committee does not intend that the discretion provided in this amendment be used without restraint. Transfer sale to eligible borrowers should be utilized whenever possible before authorizing release of liability after a sale to ineligible persons.

## *Rural Housing Appeals*

Section 510(g) of this title is amended by inserting (1) before "issue" and changing the semicolon at the end of the Subsection to a period and adding to the end thereof the following:

"(2)--- A separate grevience and appeal procedure which shall include eviction actions, shall be maintained for tenants in FmHA financed rental housing. Such regulations promulgated by the Secretary for all other directly and adversely affected persons or organizations shall at a minimum include the following:

(A) *Written Notice* The applicant or borrower shall be provided written notice of any adverse decision and the reasons for same when that decision is made and a notice of the opportunity for an informal meeting and hearings as provided in this section. The Secretary shall prepare a brochure in layman's language describing how the appeal process works and will provide a copy when notifying those who are adversely and directly affected. Copies of the brochure shall be available to the public in any FmHA office.

(B) *Appellants' Rights*. Any applicant for program services under this Act shall have the following rights: (i) unconditioned access to the applicant's personal file including a reasonable opportunity to inspect the file at the agency's office and cooperation in reproducing the file or parts of the file; the agency may charge reasonable costs for file reproduction where costs are incurred; (ii) representation by an attorney or non-attorney when inspecting and reproducing files, at informal meetings under subparagraph (C) or formal hearings under subparagraph (D).

(C) *Informal Meeting*. The Secretary shall adopt procedures for an informal meeting between an aggrieved applicant and agency officials. The purpose of such meeting will be to provide an opportunity for both parties to reconsider and resolve differences and minimize the need for formal appeal under subparagraph (D). The procedure shall:

(i) Not jeopardize the rights of the applicant or borrower to further review under this section.

(ii) Require completion of the informal meeting process including notice of the reconsidered decision as required by subparagraph (E), within thirty days after the original adverse decision.

(iii) Provide for the direct involvement in the informal meeting of the original decision maker and, where that decision maker is the agency's county supervisor, with an agency district director.

(iv) Allow for a waiver of an informal meeting when the agency determines, and the applicant agrees, that a meeting would likely not avoid a formal appeal under subparagraph (D).

(v) Provide for written notice informing the applicant of the reconsidered decision; when the reconsidered decision remains adverse to the applicant the notice will include all reasons for the decision and will become the record of the agency's decision replacing the written notice required by subparagraph (A) for any subsequent formal appeal.

(D) *Formal Hearing*. After a meeting pursuant to subparagraph (C), and where the agency's decision remains adverse to the borrower or applicant, the borrower or applicant may request a hearing before a hearing officer appointed under Section 3105 of the Administrative Procedure Act by filing a complaint with the agency within twenty days of the notice of the decision made pursuant to (C)(v).

(i) The hearing shall take place within thirty days of the appellants request and the hearing officer shall decide all questions of fact and law and shall uphold, reverse, or modify the agency's reconsidered decision. Evidence may include applicant's complaint, agency's answer, notice of the reconsidered decision, and testimony by agency officials, applicant and relevant experts, except that affidavits by officials, applicant and experts may be substituted for direct testimony when agreed by the parties or allowed by the hearing officer.

(ii) Within ten days of the hearing both parties shall be given written notice of the decision, setting forth all findings of fact and reasons for the decisions. Hearings shall be tape recorded and a transcript made available at cost upon request of either party. The decision of the hearing officer shall be final, but shall not preclude judicial review.

(iii) Hearings under this subsection shall be held at the agency office nearest to the applicant's residence.

(E) The Secretary shall establish sufficient additional Administrative Law Judge or Hearing Officer positions to assure implementation of this provision. Such positions may be in addition to present department ceiling levels, subject to appropriations legislation jurisdiction, but otherwise must be established within the present ceiling.

(F) The Secretary shall establish a reporting procedure whereby records are established of decisions to uphold or overrule agency actions and specifically of the type of action or decisions that have been overruled. These data are to be made available to agency managers to improve performance and to the public upon request".

(3) In making administrative determinations as to what kinds of decisions are appealable the Secretary must include appeals of housing appraisals, but may limit single family housing appraisals to those where the applicant has secured a significantly different appraisal from professional a appraiser."

Justification:

The proposed procedure is not made because no appeal procedure exists, but to strengthen the current law. The language referencing a separate appeal procedure for tenants, including evictions, is included to clarify current authority. The existing law and legislative history require FmHA to maintain a tenant appeal procedure. The amendments change the procedures for those directly affected by FmHA decisions and the tenant reference reinforces existing authority, and makes clear that those requirements are not diminsihed.

The current FmHA appeal procedure for those directly affected by FmHA decisions (7 CFR Part 1900 Subpart B) relies totally on the use of agency personnel to decide the merits of request for relief brought by appellants. Moreover, the current system stops at the state director level when the appeal involves a decision at the county office. Rural housing applicants and borrowers and their farmer counterparts complain that FmHA officials often ignore facts in making decisions on their appeals. Many of those affected adversely by FmHA decisions feel that the agency's hearing and review officers are unduly influenced by recognition of FmHA administrative difficulties and by a reluctance not to judge their peers negatively.

Fiscal year 1983 data (FmHA report 1992-A5) seem to bear out

# REAUTHORIZATION OF HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

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THURSDAY, FEBRUARY 19, 1987

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
*Washington, DC.*

The subcommittee met at 1:45 p.m., in room SD-538, Dirksen Senate Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Sarbanes, Dixon, Sasser, D'Amato, Hecht, and Bond.

## OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. The committee will please come to order.

I apologize for the lateness, but schedules are impossible around here, as I think you all know.

I welcome you all. I have a brief opening statement to make.

This is the second hearing the Senate Housing Subcommittee is holding in preparation for the Housing and Community Development Act of 1987.

The full Banking Committee will mark up the bill on March 3 and I intend to bring the bill to the Senate floor as quickly as possible.

Now, 3 years have gone by since the Congress last enacted a housing bill. Housing policy is simply too important to justify that drift. Last year this committee favorably reported S. 2507, which included a number of important matters on which a broad, bipartisan agreement was developed in both houses of Congress.

Unfortunately, the Senate leadership never brought up the bill for floor consideration during the last Congress. This year the committee will use S. 2507 as the basis for an important housekeeping bill that deserves early action.

I believe the bill should accomplish several things. First, it should provide a 2-year extension of authority for most housing and community development programs to create the stable environment needed for sound management.

Second, it should provide permanent authorization for FHA so that we will never again see the interruption in mortgage insurance that occurred last year.

Third, it should give every eligible city a fair opportunity to get outstanding UDAG projects approved.

Fourth, it should prohibit unjustified user fees or taxes on the activities of FHA, Fannie Mae, Freddie Mac or Ginnie Mae, which will drive up the cost of home owernship.

I am very disturbed that Ginnie Mae proposes through administrative action alone to increase its guaranty fees from 6 to 10 basis points effective March 1. That action would directly contravene the clear policy of Congress.

S. 2507, as reported from this committee, and H.R. 1, as passed the House, both included provisions expressly to prohibit such an increase in the GNMA guarantee. I and Senator D'Amato have written Secretary Pierce asking him to halt any further action to implement that fee increase.

We will introduce a bill next week to prohibit that fee increase, which would drive up costs for thousands of moderate-income families that are struggling to buy a home. A "dear colleague" letter is going out to all Senators inviting them to join with Al and me in cosponsoring that bill. I intend to find a way to get fast action on this matter.

This year's housing bill should include a number of other important provisions. I know the provisions of S. 2507 are familiar to each of our witnesses. At our last hearing I asked each witness to submit their suggestions for additions or refinements to that bill. Let me make that request now to all of our witnesses this afternoon. So that the committee will be able to consider your suggestion, please get them to the committee offices as early as possible next week. Just take that bill as your guide, what would you do to it, add, subtract, revise, or whatever.

I found that the first hearing provided very helpful testimony. I'm looking forward to hearing your views this afternoon. I am particularly encouraged by the interest you have shown in rebuilding a national housing policy and reformulating the Federal role in housing in a way that meets the demands of the next decade. I intend to work with you very closely on that task during the next year.

Unfortunately, we are under unusually intense time pressures this afternoon. Sudden changes in the schedule of floor debate and urgent meetings confront me and other members of the committee with time conflicts which could not have been foreseen when this hearing was scheduled. So I want to turn to the witnesses as quickly as possible, but first we will have opening statements from members of the committee and I particularly want to say that I am delighted that Al D'Amato is the ranking minority member on this committee. We worked together very effectively during the last Congress when he was the chairman of the subcommittee on Securities and I was the ranking minority member. We developed a superb working relationship that I believe will enable us through this committee, with the other members, to break records on what we are going to do for the housing industry, first with our housekeeping bill, and then with a more creative, innovative bill of further far-reaching dimensions that we will develop this year for action next year. I think we can accomplish a lot and, Al, I look forward to that partnership.

## OPENING STATEMENT OF SENATOR D'AMATO

Senator D'Amato. Mr. Chairman, let me first say how pleased I am to have the opportunity to be working with you. I do believe that you have charted out a course of action that can only result in strengthening our commitment to provide adequate, decent housing and those incentives that are necessary.

At the risk of prolonging the hearing somewhat I'd like to, if I might, Mr. Chairman, just touch on one of the programs that we included in last year's bill, S. 2507, and that is the Nehemiah Housing Program, because I know there are some concerns some of our colleagues have with respect to it and I notice my colleague and friend, Congressman Schumer, who has been a major force in bringing about the Nehemiah Program legislation that has passed the House of Representatives and the legislation as far as it has reached here in the Senate and he will testify from his own knowledge and experience of the magnificent results that have taken place.

But there are some misconceptions. First of all, the Nehemiah Program provides financial assistance of up to $15,000 to families in distressed neighborhoods for the construction or substantial rehabilitation of homes. This assistance takes the forms of an interest-free second mortgage held by HUD and payable upon the sale or transfer of a home. It truly is an investment by HUD in providing an opportunity for home ownership in inner-core cities. The second mortgage is that vital link. It bridges the gap between the price of home and the amount of the first mortgage that a family can afford.

To date, 700 Nehemiah homes have been completed and occupied by residents of East Brooklyn, New York, and there are 300 homes now under construction and 1,500 sites are committed for construction this spring. In addition, 3,000 sites are proposed for the Rockaways and Queens.

And again, without Congressman Schumer and his leadership and without those of the church and others who have really come to the fore, none of this would have been possible.

Now in that successful Nehemiah Program in Brooklyn, I think possibly we can get an opportunity to see what has really taken place, as opposed to some of the indications that HUD has made by way of a rather incomplete survey—a telephone survey, that was rather inconclusive conducted in 10 cities.

Let me, if I might, take an opportunity. The families that purchased these homes had an average income of—50 percent of the Nehemiah buyers came from assisted housing—in other words, section 8 housing or public housing. Families that replaced the new Nehemiah homeowners have an average income of $6,500. So 50 percent move into Nehemiah housing and then you had people with an average income of $6,500 moving into the housing that they once occupied.

Thus, the Nehemiah Program helps poor families and frees up housing for those that are even less fortunate.

Those who argue that this program needs to be targeted for more narrow areas miss some important points. First of all, 99 percent of the participants are first-time homeowners—99 percent. Most of the allegations by critics. In appeal hearings that year 75.7% of FmHA housing decisions and 83.5% of farmer program decisions were upheld. Only 8.2% of the 24.3% housing cases, and 5.3% of the 16.5% farmer program cases, not upheld were overruled without modification. By way of contrast, the Social Security Administration has a reversal rate which exceeds 50%.

Disagreements between FmHA and adversely affected rural housing applicants and borrowers are often complex. Very often they involve subjective determinations on affordability, on market feasibility, or interpretation of complex regulations including those for eligible sites. Disagreement between FmHA local officials and farmers typically involve complicated contractual relationshps, the use and interpretation of detailed regulations, and technical choices among different farming and livestock production techniques. In addition, very large sums of money are at stake, and timing can be very critical. Increasingly over the last several years, the livelihood of the farm family has been at stake. The current FmHA appeal system has been unable to deal with these demands or fulfill the purposes of an administrative appeal system.

A healthy appeal system would provide a mechanism for testing and protecting the integrity of the important public purposes delegated by Congress to FmHA. An improved appeal system must be designed to cope with the complexitiy of FmHA loan and grant programs and should strive to:

-- treat applicants and borrowers in like circumstances consistently;
-- facilitate quick, local settlement of disputes especially those involving critical timing decision like planting, harvesting, feeding and marketing in farm operations, protecting investment in real estate, and in professional support services;
-- Where local settlement fails, provide objective resolution of disputes by an independent hearing officer;
-- provide the agency with a more effective system of checks and balances to measure FmHA loan officers' understanding of and effectiveness in program implementation;
-- facilitate agency identification of patterns of disputes that need national office policy attention and resolution.

Some of the practices included in the proposed system are currently part of FmHA's administrative appeal system (7 C.F.R. 1900). The use of administrative law judges (ALJ) would simply extend the present system of USDA ALJ's. 7 C.F.R. 1.130. We estimate that the number of ALJ's would need to be substantially increased and developed to provide local level hearings. This change will incur costs, but they will be significantly offset by the proven benefits of independent hearing officers used in most other federal appeal systems and the direct savings of staff time involved in the current appeal system. This has often included sending FmHA officials, and in some cases borrowers, to nearby states to assure that an uninvolved FmHA official is available to preside over certain types of hearings.

The use of an expanded cadre of U.S.D.A. administrative law judges and Hearing Officers provides for independent hearings and decisions. ALJ's appointed under the Administrative Procedures Act will conduct de novo reviews of the decisions made by the county committee, county supervisor, or district director. Their decision to modify, reverse, or uphold the action will be final unless subsequently modified or reversed by the courts. Currently, the Department of Agriculture uses ALJs for actions brought under other selected USDA laws. For instance, administrative appeal proceedings under the Packers and Stockyards Act, the Federal Meat Inspection Act and the United States Grain Standards Act are handled by ALJs within the

Secretary's Office of Administrative Law Judges. In implementing this proposed subsection, FmHA will be able to adopt the system already in place for their own appeal process. Current regulations setting forth the Department's appeal system are found at 7 C.F.R. 1.131. Where these regulations do not conflict with the proposed new subsection they can be used as a model for implementing the new FmHA appeal procedure.

The number of appeal cases which will go to the formal hearings stage is difficult to estimate. A strong informal meeting process as authorized by the amendments, the desire to avoid the formal hearing state, and an improved reporting system that allows reference to how similar disputes were decided should combine to reduce the need for formal appeals considerably.

The sentence dealing with evidence does not require the attendence of agency officials, the applicant or experts when the parties agree or the hearing officer decides that affidavits will suffice.

## Need and Demand for Farm Labor Housing

Report Language Pertaining to Section 514(h)

"In clarifying need for migrant farm labor housing, the Secretary may require applicants to provide some evidence of demand for use of such housing. Demand may be identified by surveys of workers, professional market studies or support from local farm labor users, or other means, and the committee intends that applicant be given the option as to which will be used to provide proof of demand. The Secretary should refrain from making a requirement that cannot be met when suitable evidence of demand can be met using alternative methodolody.

Justification:

In some states, particularly on the east coast, FmHA has been imposing almost impossible to meet requirements for proving demand. In at least one state such requirements are more a reflection of a bias against using more than one subsidy to house farmworkers, than of the obvious need. Traditionally, FmHA has established demand for rental housing through market surveys of eligible and willing prospective tenants. This approach can be utilized, in some instances, for migrant workers, but cannot be totally relied upon given the uncertainties of migrant labor, the distances traveled, and the potential scattering of a work force. The intent of the language is to permit the applicant to use whichever option is more practical and does not relieve them of the responsibility for providing reasonable market demand information and/or data.

## Uniform Data for Determining Section 515 Priorities

Report Language

In establishing comparative data for median per capita income, substandard housing or other factors used to weight Section 515 applications, FmHA must use data available, on a uniform statewide basis, for local units of government. The agency currently uses county data which tends to make difficult approval of applications from low-income communites within more affluent counties. This can cause less needy communities in poorer counties to outrank more needy communities in wealthy counties. The committee does not intend that FmHA discontinue use of county data where it is the only uniform information available. We concur with the FmHA concept that whatever data base is used must be uniformly applicable and available statewide.

## Location of Section 515 Projects

Report Language to Section 515(m)

In determining suitable locations for rental projects the Secretary may require that they be in close proximity to some facilities such as limited shopping. The committee does not intend this to permit the denial of service in the established places with some services, where residents customarily travel reasonable distances to other communities for such services as hospital care, major shopping or where children are bussed to other locations for schooling.

Justification:

Farmers Home Administration regulations for location of rental housing projects have become increasingly restrictive with regards to the proximity of facilities and services such as shopping, medical care, hospitals, churches and schools. While the intent is to ensure that the project location is viable and there will be a continuing demand for occupancy, such restrictions are often imposed without regard to the normal and traditional population structure of the community. The report is not intended as a total prohibition for the imposition of site selection criteria, but to require that such criteria only be totally imposed after consideration of the needs, traditions, population patterns and trends for each particular community.

## State and Federal Minimum Occupancy Restrictions

Section 515 is amended by redesignating subsection (p) as subsection (q) and inserting a new subsection (p) as follows:

> "(p) where state grants are combined with section 515 loan funds deed restrictions or other legal documents may be used to require a minimum percentage of low income tenants, or of farmworkers tenants, at least in proportion to the amount or impact of the grant."

Justification:

State grant programs are often legislated to combine with federal programs such as Section 515 rental or cooperative housing. Such laws often require targetting in the form of minimum percentages of low income tenants. While these restrictions are not in conflict with the targeting intent of Congress as evidenced by prior amendments to Title V, USDA attorneys have held that FmHA lacks the authority to permit them. The amendment grants this authority.

The authority to permit a minimum percentage restriction for farmworkers is a departure from the open housing authorities in Section 515. Far from creating a priveleged class, the amendment is only intended for use where specific state supplemental grant programs can be combined in areas where farmworker need for subsidized rental housing can be demonstrated. Farmworkers, as a class, are the poorest housed of all rural citizens. FmHA's farm labor housing program is limited in scope, and the opportunity for combining state and federal financial resources should not be overlooked, passed by, or rejected.

The committee intends that in no case may the minimum occupancy requirements for low income or farmworker tenants exceed the impact of the grant. For example if a state is providing rental assistance subsidy for 100 percent of units it should be able to require more rigid income limits than FmHA for all of those units. Where a state is granting 20 percent of the project development cost, it should be able to require that a minimum of 20 percent of the units be rented to low-income households.

## Farm Labor Housing Appraisal

Report Language to Section 516

> The committee does not intend that the maximum grant or combination loan and grant always be limited by market value appraisals. The Secretary in establishing the total amount approveable must take into consideration the costs particular to developing farm labor housing. Appraisal for projects financed with farm labor housing grants should be comparable to other farm labor projects. When none are in reasonable proximity, the Secretary shall be expected to utilize the lowest bid or negotiated bid cost. The committee does not intend that the amount of loan should exceed any appraisal made by FmHA.

Justification:

National FmHA has upheld the right of field staff to utilize a pure technical appraisal approach which does not necessarily take into account specific costs attributable to farm labor housing and may yield loan and grant approval limit well below actual cost. It is unreasonable for FmHA not to take all typical farm labor housing costs into account when determining limits. There are also situations where the most logical location for farmworker housing, relative to proximity to the workplace and services, is in an urban area. FmHA use of Section 515 comparables are often not relevant to this situation. The committee intends recognition of farm labor housing costs not comparable to other rural rental situations.

## Cost in Transferring Loans

Section 517(j) is amended by renumbering paragraphs "(4)" and "(5)" as paragraph "(5)" and "(6)", inserting new paragraph "(4)" and changing new paragraph "(6)" as follows:

> "(4) To pay sales commission and any other expense necessary to enable a borrower to tranfer property which is security for a loan made pursuant to this Title to a party who will assume that portion of the existing loans(s) equal to the market value of the property, less the allowable sale expenses, when the Secretary determines such payments are in the Government's best financial interest."
>
> "(6) To make advances authorized by Section 501(e)."

Justification:

In situations where a borrower has no equity or insufficient equity to pay the necessary costs associated with sale of the property from sale proceeds, potential sales fall through because the borrower does not have the resources to pay such things as a real estate broker's commission, fees for termite inspection or preparation of a deed, and other costs a seller normally must pay. The usual result is for the borrower to convey the house to FmHA, and after acquiring title, maintaining the house for sometimes lengthy periods with the accompanying incurrence of administrative expenses and loss of interest on the loan. FmHA then pays a broker's commission to sell the house from inventory and various other expenses related to handling inventory. It would be in best financial interest of the government to pay the sale-related costs "up-front" to facilitate the borrower's transfer directly to a new owner rather than the Government. Payment of costs by FmHA would be limited to cases where the debt plus sale costs exceed the market value of the property. It would not occur when the borrower receives any equity payment.

the Nehemiah occupants are low income. The median income for all participants in New York is approximately $24,000. 40 percent of the new homeowners come from assisted housing, 25 percent of them participating in Brooklyn are from public housing, so that they made available when they moved some 175 public housing units when they purchased their Nehemiah housing units. And 15 percent of the participants were receiving other Federal assistance such as section 8 which has made 75 units available for others.

The reason why Nehemiah-type housing will be purchased primarily by low-income families is due to the fact that there are restrictions in the bill on the type of neighborhood in which the housing can be located. It's very unlikely that these neighborhoods are going to attract many families with incomes near the eligibility limits and the bill states that the preponderance of funds in any metropolitan area must be from families with incomes below 95 percent of the median income. Few families above this want to purchase in these areas unless they have a special attachment to the neighborhoods such as having grown up in a neighborhood or having relatives in the area.

Now the U. S. Department of Housing and Urban Development's assessment of the Nehemiah Program is hardly based on sufficient data to comment on the merits of the Nehemiah Program. And I would suggest that they make a more comprehensive study. This doesn't compare with the hands-on assessment that you will have testified to, Mr. Chairman, today by Congressman Schumer and others. Again, I've only taken this time because there have been a lot of irresponsible statements made about this program. I believe if you want to turn around the inner-core cities of America, give its residents and give its people that hope and that dream of home ownership. Make it become a reality. You will begin to see neighborhoods thrive. You will begin to see in terms of every measurable standard improvements in terms of education, improvements in terms of lowering the drug and alcohol addiction, improvements in terms of lowering the crime rates. Those have been just some of the preliminary results that have come about as a result of the implementation of this program in Brooklyn.

Again, I want to commend Congressman Schumer for his leadership and foresight in this area. Thank you.

[The complete prepared statement of Senator D'Amato follows:]

### STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I am pleased that the subcommittee will be hearing testimony today from a panel concerning the establishment of a National Nehemiah Housing Program. This program permits low- and moderate-income families to achieve the dream of homeownership. I look forward to hearing testimony from Congressman Schumer, Mr. Robbins, Father Spengler, and others concerning this vital housing program.

Mr. Chairman, on January 6, 1987, I introduced legislation, S. 258, the Housing and Community Development Act of 1987. I offer this bill as a catalyst for addressing the housing and community development concerns of this Congress. This bill includes some items that were contained in the various housing bills of the 99th Congress, such as H.R. 1, H.R. 3500, S. 1730, S. 1913, which I introduced, and S. 2507, which was reported out of the full Banking Committee last May, but unfortunately was not considered by the full Senate.

S. 258 in no way encompasses all current housing and community development needs. Rather, it is my hope that this bill will serve as a starting point. My bill contains a limited number of timely program amendments and new initiatives that should be enacted this year, including the National Nehemiah Housing Opportunity Program and two programs for the homeless: an Emergency Food and Shelter Grant Program and a Transitional Housing Program. I first introduced these programs late in 1985 after working with many of my committee colleagues in developing them. As you know, the Nehemiah Housing Program was incorporated in S. 2507 last year and also included in the House of Representatives' housing authorization bill, H.R. 1.

The Nehemiah Housing Program permits families that otherwise would not be able to purchase a home to achieve homeownership. It provides financial assistance of up to $15,000 to families in distressed neighborhoods for the construction or substantial rehabilitation of homes. This assistance takes the form of an interest-free second mortgage held by HUD and repayable upon the sale or transfer of the home. The second mortgage is a vital ingredient of the Nehemiah program because it bridges the gap between the price of the home and the amount of a first mortgage that a family can afford.

To date, 700 Nehemiah homes have been completed and occupied by residents of East Brooklyn, New York. There are 300 homes now under construction, and 1,500 sites are committed for construction this spring in east New York. In addition, 3,000 sites are proposed for the Rockaways in Queens, New York.

In the successful Nehemiah Program in Brooklyn, sponsored by the east Brooklyn Churches, 50 percent of the Nehemiah Buyers come from assisted housing. Families that replace the new Nehemiah homeowners have an average income of $6,500. Thus, the Nehemiah program helps poor families and then frees up housing for these even less fortunate.

Those who argue that this program needs to be targeted more narrowly are missing important points. First of all, 99 percent of the participants are first-time homowers. Most of the Nehemiah occupants are low income. The median incomes for participants in New York is approximately $24,000. Forty percent of new homeowners come from assisted housing; 25 percent of the participants in Brooklyn are from public housing which has made 175 public housing units available for the homeless and other low income individuals; and 15 percent of the participants were receiving other Federal assistance such as section 8, which has made 75 units available for others.

The reason why Nehemiah-type housing will be purchased primarily by lower income families is due to the fact that there are restrictions in the bill on the type of neighborhoods in which this housing can be located. It is unlikely that these neighborhoods will attract many families with incomes near the eligibility limit. Few families above this category want to purchase in the area unless they have special attachment to the neighborhood, such as growing up in the neighborhood or having relatives in the area—and there is nothing wrong with wanting to stay in a neighborhood near relatives.

The U.S. Department of Housing and Urban Development's assessment of the Nehemiah Program is hardly based on sufficient data to comment on the merits of the Nehemiah Program. HUD's study was mostly based on a telephone survey of 10 cities. This does not compare with the hands-on assessments made by officials of numerous cities and localities who have visited the Nehemiah Brooklyn site and have expressed an interest in replicating the Brooklyn effort. The following are just some of the cities and officials who have visited the New York site and expressed an interest in this programm:

Austin, TX—head of the Chamber of Commerce, Church and community leaders;
Boston, MA—mayor;
Los Angles, CA—church leaders, community leaders and congressman;
Albany, NY—several delegations;
Baltimore, MD—housing, political, church, and community leaders (including BUILD [Baltimoreans United in Leadership Development];
Memphis, TN—church and community leaders;
Syracuse, NY—head of the housing authority;
Atlanta, GA—foundaton executives;
Jersey City, NJ—community and church leaders; and
Delegations from Philadelphia, PA.

This program would allow these and other cities the flexibility to develop cost-effective housing that would work in their communities. The legislation should not be modified to hamper cities from using the resources available to them to provide safe, decent and affordable housing. Many will not have the same kind of city, State, and private asssitance that was provided in Brooklyn, but this does not mean that they should not have the opportunity to create Nehemiah housing for other American families. We should commend them. Furthermore, we should encourage them by providing the assistance necessary to strengthen their neighborhoods. The Nehemiah Program allows for the development and revitalization of our Nation's cities.

The Saturday, July 19, 1986 editorial in the New York Times summarizes this point well. It states: "Give NEHEMIAH A NATIONAL TEST." For the benefit of my colleagues on the subcommittee, I ask that a copy of that editorial be inserted in the subcommittee transcript.

The Nehemiah approach is founded on fundamental American values of ownership, equity, and family stability. The savings are enormous to the Federal Government if we consider the $120,000 cost for one new unit of public housing. This same amount would buy 12 new Nehemiah homes (if the average no-interest second mortgage is $10,000); in addition, 6 freed-up units of public housing would be made available for a total of 18 housing units for the cost of one new unit of public housing.

Mr. Chairman, we have every reason to believe that this program provides residents with new hope and incentive to work and to save. With the pride of homeownership, residents will fight against crime and drugs in their neighborhoods. Organized homeowners demand, and have received, better police protection and better park and other community services. They have become active in health care and the quality of life in the entire community which benefits the poorest of neighborhoods.

For more than 50 years, the Federal Government has played an important role in encouraging homeownership. The Nehemiah Program permits the continuation of this commitment. Mr. Chairman, I trust that the subcommittee will once again join me in supporting a homeownership program that provides housing in our Nation's communities and for our citizenry.

Thank you, Mr. Chairman.

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[From the New York Times, Saturday, July 19, 1986]

### GIVE NEHEMIAH A NATIONAL TEST

The Nehemiah project in Brooklyn taught New York City how to develop moderate-income housing without heavy government spending and red tape. Whether it could be duplicated elsewhere remains a question, but it's certainly worth $150 million in Federal funds to find out. The House has approved the idea, but it awaits Senate action.

Named for the biblical prophet who rebuilt Jerusalem, the Nehemiah project has had the backing of an ambitious coalition of 50 religious congregations in east Brooklyn. It has so far built 500 houses, is working on 500 more and hopes for 5,000 eventually. The churches raised an initial $8 million construction fund. New York City contributed the land, and the state's mortgage authority provides low-interest first mortgages for houses that sell for about $50,000. The city also offers no-interest second mortgages up to $10,000 to put the houses within reach of families earning less than $25,000.

A national program inspired by the project is sponsored by Representative Charles Schumer of Brooklyn and Senator Alfonse D'Amato. It would authorize up to $150 million for no-interest second mortgages of the type offered by New York City. That modest sum would not make the Federal Government responsible for producing such houses, but only for supplying the last, important link in a clain that begins with genuine local effort.

Senators William Armstrong of Colorado and Phil Gramm of Texas object that the program would help moderate-income families and not the poor. But in Brooklyn, at least 40 percent of those who move into Nehemiah houses moves out of public housing, freeing space for poor families. And in many big cities, the families of so-called moderate income need housing as much as the poor.

The Federal Department of Housing and Urban Development opposes new subsidies of any kind and argues that Nehemiah projects cannot be duplicated elsewhere. Not every city owns as much abandoned property, it says, and community organizations like the Brooklyn church coalition are rare.

But it is a rare big city that does not have at least some blighted blocks and some community groups capable of developing them if they had encouragement and support. This legislation could provide it.

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Senator CRANSTON. Thank you very much, Al.

Senator Dixon.

## STATEMENT OF SENATOR ALAN J. DIXON

Senator DIXON. Mr. Chairman, at this second hearing of the Housing and Urban Affairs Subcommittee to consider a 1987 housing authorization bill, I commend you for your effort to expeditiously move this proposal toward committee markup.

On Tuesday, February 17, 1987, we heard testimony from a variety of impressive witnesses who expressed support for provisions of S. 2507, last year's housing reauthorization bill, which this subcommittee approved. From elected officials and others, we heard support for such Federal programs as Urban Development Action Grants, Community Development Block Grants, Housing Assistance, and Rural Housing. We also heard overwhelming support for authorization of a Homeless Program. From the list of today's witnesses and from the testimony that they have submitted, we will undoubtedly hear impressive and significant support for many of these programs.

I am pleased to see that we have a distinguished list of panelists to discuss the tenant management of public housing issue. As you know, Mr. Chairman, last year, the Senate Banking, Housing, and Urban Affairs Committee unanimously approved this proposal as a provision of S. 2507. Along with Senators Glenn, Danforth, and Kennedy, I have reintroduced the proposal in S. 243. I urge the subcommittee to approve the resident management proposal so that public housing residents may have an alternative to managing their own living conditions.

Thank you, Mr. Chairman.

Senator CRANSTON. Senator Hecht.

Senator HECHT. I have no statement.

Senator CRANSTON. Senator Sasser.

Senator SASSER. I will forego giving an opening statement, Mr. Chairman, in the interest of time.

Senator CRANSTON. Thank you very much.

Congressman, we welcome you. I know you're an outstandingly effective member of the House.

I'm sorry. Senator Bond.

## OPENING REMARKS OF SENATOR BOND

Senator BOND. Thank you, Mr. Chairman. It's a real honor and a pleasure to be serving with you and the members of this subcommittee. I had the opportunity a few years past with the National Governors Association Committee on Community and Economic Development to work with a number of you and certainly the groups here involved on housing issues. It's a pleasure to be back and to begin to relearn the matters of which we dealt over the years.

Senator CRANSTON. Thank you, Chris. I'm delighted you're here and forgive me for not recognizing you at once.

Congressman, we are delighted you are here. Please now proceed.

## STATEMENT OF CHARLES E. SCHUMER, U.S. REPRESENTATIVE FROM THE STATE OF NEW YORK

Representative SCHUMER. Thank you, Mr. Chairman. In the interest of time, I, too, with the chairman and the committee's permission, will submit my statement for the record and just highlight some of the points that I think are worth making if that's OK with the chairman.

Senator DIXON. Please proceed, Congressman.

Representative SCHUMER. Thank you very much.

First I would like to thank the committee for inviting me here and I am hopeful that we can see Nehemiah into law. I am particularly hopeful that with leadership on your side that my good Senator, Senator D'Amato, has provided in this program we will see that goal and one day maybe next year or the year after we will all come out to some former slum in the innercity in one of America's great cities and see beautiful, three-bedroom, single-family row housing owned by people who never thought the dream of home ownership was possible for them. So I am appreciative of being here.

## THREE HALLMARKS OF THE NEHEMIAH PROGRAM

Let me say to the committee that the Nehemiah Program really has three hallmarks.

One, it's cost efficient. I say to the gentlemen of this committee that I don't think you will find a cheaper housing program, a program that gives more bang for the buck, than Nehemiah.

Second, it involves home ownership. I think our experience in housing programs in the past has been that home ownership, when people own a little piece of the rock, the housing lasts longer, is treated better, and its value increases rather than decreases. And quite the opposite has often occurred in rental housing when no ownership is possible.

And the third thing that I'd like to emphasize is that this program involves entire communities. It's not just a housing program. In Brooklyn where this has happened, the community had to get together to put it together and that's part of the legislation. There's not going to be a HUD bureaucrat coming in and plunking down some housing somewhere. You need community participation.

Once Nehemiah was built, you saw the schools get better, the police protection get better, the sanitation get better, and just as Senator D'Amato outlined it, neighborhoods that were once total, total slums have risen from the ashes and it's aptly called the Nehemiah Program for that reason. It's named for the biblical prophet who rebuilt the walls of ancient Jerusalem because this program has transformed one of New York City's most desolate areas into a new and vibrant neighborhood.

Fields once cluttered with trash and broken bottles now sprout fresh grass and neat houses now serve as homes for proud homeowners who have banded together with an inspiring sense of community.

This program can put home ownership within the grasp of millions of low-income Americans. Nehemiah has shown that it is possible to revitalize troubled inner-cities throughout the country.

I won't describe the program. I'm sure you're familiar with it. But one thing I would like to say. The cost to the Federal Government per home is a $15,000 loan. Let's compare that with section 8, an average cost of $76,000. Let's compare that with building new public housing, an average cost of over $100,000. Those are good programs, but I would say to all of my colleagues, I came to this Congress in 1981 and there were lessons that many had wanted us to learn. They had said in housing the programs had to be more cost efficient. The old programs cost too much. It cost too much to house a single person. The program had to have local support. We shouldn't have Washington telling localities what to do. The program shouldn't have a lengthy payout system so that an obligation in year 1 would continue through year 15 or year 20. And finally, the program had to work. No more Pruitt-Igoes, no more huge housing projects abandoned and unused.

And so we scratched our heads and looked at the example that the folks from Brooklyn had put before our eyes and we came up with this Nehemiah Program. By every standard, this program is a success. It works.

And the final thing—and I guess I would address this to some of my more conservative colleagues, this committee in S. 2507 supported Nehemiah and I want to thank not only Senator D'Amato but the many members of this committee, including the former chairman, Senator Garn, who supported Nehemiah.

But I would say to a couple of the members who are not here today but I hope they will read my remarks who have opposed this, they throw thunderbolts at us and say, "No new programs." Well, that puts us in a very, very difficult box because they are telling us on the one hand that the old programs don't work and yet the needs of the people are crying out. Well, can we take the criticisms that those have leveled at the old programs—too expensive, too inflexible, throwing money at problems—and can we recraft them into something that's worked?

Well, we've tried, gentlemen, in this Nehemiah Program. I believe it works. We are not asking for much money. We want to prove to you that it works without billions of dollars of appropriations. I would say to this committee, give us the chance to show you. I thank the gentlemen for allowing me to testify today.

Senator DIXON. Thank you, Congressman Schumer.

Now we have a panel, James M. Fischer, Jr., president, National Association of Home Builders, Nashville, TN; Nestor R. Weigand, Jr., president-elect, National Association of Realtors, Wichita, KS; John Simon, president, National Housing Conference, Washington, DC; and Kent Willis, executive director, Housing Opportunities Made Equal, National Fair Housing Coalition, Richmond, VA.

Senator SASSER. Mr. Chairman, would you yield to me?

Senator DIXON. Senator Sasser from Tennessee, I'm delighted to yield to you to introduce your witness.

Senator SASSER. Thank you very much, Mr. Chairman.

I want to welcome today the president of the National Association of Home Builders, Jim Fischer of Nashville, TN.

Jim has been in the building business for more than 25 years and during that time his construction company has developed five subdivisions and built more than 500 single-family homes and 8 apartment complexes in the Nashville area.

He's one of the most knowledgeable people in this country in the area of housing. He's been active in the National Association of

Home Builders for some time in both his State and local association, really for more than 20 years. Since his election as the Home Builders' senior officer 4 years ago, Jim has served as the National Association of Home Builders vice president, secretary in 1984, vice president-treasurer in 1985, and first vice president in 1986. He officially took over as president of the Home Builders in January at their Dallas convention and, Mr. Chairman, we are awfully proud of Jim Fischer in Tennessee and in my home town of Nashville, so I wanted to take just a moment to welcome him especially before this committee today.

Senator CRANSTON. Thank you very much, Senator.

Would you now please proceed?

## STATEMENT OF JAMES M. FISCHER, JR., PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. FISCHER. Thank you, Mr. Chairman. Maybe I should quit while I'm ahead.

My name is James M. Fischer, Jr., and I am president of the National Association of Home Builders [NAHB]. On behalf of the 145,000 members of NAHB, I congratulate you, Mr. Chairman, for accepting the chairmanship of this subcommittee. I also want to wish Senator D'Amato well in his new position as ranking minority member. We look forward to working with the subcommittee and your highly professional staff.

Mr. Chairman, NAHB commends you for moving rapidly to gain enactment of a housing bill and we encourage the members to support legislation similar to the bill reported last year. We urge you to authorize these programs at or near their current 1987 levels.

### INCREASED USER FEES

First on our list of priorities for inclusion in the legislation is the prohibition on new and increased user fees for FHA, Ginnie Mae, Fannie Mae and Freddie Mac from S. 2507. The administration's actions to increase the FHA and Ginnie Mae fees cause us concern and have been proposed despite the substantial legislative history in opposition to these increases.

These proposals are part of a large effort to reduce Federal involvement in essential credit activities, efforts which would increase housing costs for home buyers at the lower end of the market.

We believe the administration's other proposals for FHA should also be soundly rejected. For example, the FHA Investor Loan Program proposed for termination is of great importance to renters and builders alike. The Bureau of Census reports that 40 percent of all families who rent reside in single-family housing.

The program also provides builders with an important tool for inventory control. A recent HUD report reflects that investor loans comprised 15.6 percent of the overall FHA single-family activity during 1985, but only 3.4 percent of private mortgage insurance activity. If FHA were to withdraw from this market, the private market would not meet the need. We urge this committee to continue the Investor Loan Program as a tool for providing needed rental housing.

Other FHA proposals we urge you to reject include the decrease in overall loan authority, the increased downpayment requirement, and the limitations on closing costs included in the appraisal.

We support S. 531, which would provide permanent insuring authority for FHA. Senator Dodd's bill, cosponsored by almost all the members of this subcommittee, would put to rest the disruptions for home buyers caused by the political manipulations of FHA extensions in the past.

Mr. Chairman, we also urge you to increase the FHA single-family mortgage limits. The FHA base limit of $67,500 has not been adjusted since 1979 and we believe increasing the base with corresponding levels for high-cost areas should be dealt with this year.

Mr. Chairman, we urge this committee to adequately fund and support the Farmers Home Administration Rural housing programs which have helped shelter 2 million families. The conditions which gave rise to these programs in 1949 still exist today. The Congressional Research Service projects a housing shortage in rural areas of 375,000 units between 1986 and 1990. The vouchers proposed by the administration will not address this issue nor will they alleviate the problem of the lack of adequate housing in many rural areas.

We urge you to support continuation of the basic rural housing construction programs.

We also urge you to reject legislation which would retroactively eliminate a borrower's contractual right to prepay the rural housing section 515 multifamily loans.

Regarding manufactured housing, the Manufactured Home Construction and Safety Standards Act of 1974 provides HUD standards for the construction, design, and performance of manufactured housing built on permanent chassis. Housing built to these standards is exempt from State and local building codes. All conventional housing must meet all applicable state and local building codes, including stricter structural and energy requirements. NAHB strongly urges this committee not to change the definition of manufactured housing under the 1974 act. If the chassis is removed from a manufactured home it should not be eligible for the HUD code and should be required to meet all State and local building codes, including the higher energy and structural standards required for conventionally built housing.

To remove the chassis of a manufactured home and place it on a permanent foundation may give the outward appearance of a house meeting all local building codes. However, since the structural and energy requirements are considerably less for manufactured homes built to the HUD code, this only adds to consumer confusion in the marketplace.

We also encourage the committee to begin to consider long-term housing issues as part of the development of a comprehensive national housing policy. Among the issues to be addressed are:

Preservation of the existing housing stock, mortgage credit and secondary market programs, rural issues, and energy conservation.

Thank you for the opportunity to present our views and I will be happy to answer any questions you may have.

Thank you, Mr. Chairman.

[The complete prepared statement of James M. Fisher, Jr. follows:]

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

BEFORE THE

SENATE BANKING COMMITTEE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

FEBRUARY 19, 1987

My name is James W. Fischer, Jr., and I am President of the National Association of Home Builders (NAHB).

On behalf of the 144,000 members of NAHB, I congratulate you, Mr. Chairman, for accepting the Chairmanship of this subcommittee. We are pleased you are moving so rapidly toward consideration of a housing bill this year. I also want to wish Senator D'Amato well in his new position as ranking minority member of the subcommittee. We believe your spirit of cooperation in enacting legislation is in the interest of this Committee, the housing industry and the housing consumer. We sincerely look forward to working with this committee and your highly professional staff throughout this Congress.

Mr. Chairman, NAHB realizes the housing bill the Committee will consider in the coming weeks represents unfinished business from the 99th Congress. We commend you for moving rapidly to gain enactment of last year's housing bill, S.2507.

FHA AND GNMA USER FEES

First, NAHB strongly supports the prohibition on new or increased user fees on mortgage credit contained in S.2507. The Administration has announced an increase in the fee charged in connection with the GNMA Mortgaged Backed Securities Program effective March 1. The GNMA fee would increase from 6 basis points to 10 basis points, despite a prohibition on such an increase contained in both the House and Senate versions of last year's housing bill. Further, the Administration's budget contains an increase in the FHA fee to become effective on July 1. The FHA user fee would increase from 3.8 percent of the mortgage amount to 5 percent, despite the substantial legislative history in opposition to such an increase.

Mr. Chairman, NAHB believes it is important for the Committee to include legislative language prohibiting increases in these fees as well as a prohibition on fees for the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The Administration proposals are part of an effort to reduce the federal involvement in essential credit programs. If adopted, they would increase housing costs for homebuyers at the lower end of the market.

As this Committee knows, both FHA and GNMA produce a profit for the federal government. There exists no need to increase these fees to maintain the fiscal soundness of either program.

MORTGAGE CREDIT LIMITS

Of equal importance to NAHB is the issue of adequate mortgage credit limits. Congress has provided overall credit ceilings for FHA and GNMA of $100 billion and $150 billion respectively for the current year, a substantial decrease from last year's unprecedented activity. Since about 40 percent of last year's activity was generated by refinancings--a situation unlikely to reccur this year--we believe these limits appear adequate for 1987 and 1988 as well.

FHA INSURING AUTHORITY

As this Committee is well aware, FHA insuring authority was allowed to expire six times during fiscal 1986. For over 50 days FHA was not in business, creating costly delays for about half a million potential homebuyers, according to the Department of Housing and Urban Development (HUD).

Mr. Chairman, the marketplace will not tolerate such delays resulting from the frequent debates to which housing legislation fell victim during the last Congress. For this reason, NAHB supports a long term extension of FHA insuring authority of at least two years.

OTHER FHA RESTRICTIONS

Current FHA homeownership programs are simply conceived--if a family meets certain basic income, credit and downpayment requirements and desires to purchase a modest priced home in the area, then typically they can qualify for FHA mortgage insurance. This is as it should be, and this is what has kept the program healthy for over fifty years and able to provide homeownership to millions

of families while providing profits to the federal treasury. It is in essence a sound well-run machine which works well.

Mr. Chairman, NAHB opposes the provisions in the Administration budget, namely, the prohibition on including customary closing costs and increasing downpayment requirements to 5 percent for those families earning in excess of $40,000 per year. We also oppose terminating new insurance for Section 232 Nursing Homes and Section 242 Hospital insurance.

FHA INVESTOR LOANS

The FHA Investor Loan Program is of great importance to renters and builders alike. Current law provides single-family FHA mortgage insurance for owner-occupants (primary residences) as well as for single family rental housing (investor loans).

The Administration, however, has proposed limiting the FHA single family program to owner occupants only. The Bureau of Census has determined that 40 percent of all families who rent reside in single-family housing. Many of these families have large households.

Further, the FHA Investor Loan program has provided builders with an important tool over the years for inventory control, particularly during times of high interest rates.

The private mortgage insurance market has increasingly withdrawn from the single family rental market. According to The Report of the FHA Task Force released by HUD last month, investor loans during 1985 were 15.6 percent of overall FHA single-family activity, but only 3.4 percent of private mortgage insurance activity. If FHA were to withdraw from this market, the private market would not meet the need.

Senator CRANSTON. Thank you very much.
Mr. WEIGAND.

## STATEMENT OF NESTOR R. WEIGAND, JR., PRESIDENT-ELECT, NATIONAL ASSOCIATION OF REALTORS

Mr. WEIGAND. Mr. Chairman, I'm Nestor Weigand, Jr., a realtor from Wichita, KS, president-elect of the National Association of Realtors, and on behalf of our 775,000 members we appreciate the opportunity of being here today and, likewise, on a personal level, I've enjoyed meeting Kent, John, and Jim, and may I also say that with me today is our executive vice President Bill North, and our senior vice president Al Abrahams.

We are here to express our concern over what appears to be a piecemeal approach to dismantling the Federal housing credit programs.

### FEDERAL ROLE IN HOUSING

Specifically, it appears that the administration is continuing its efforts to privatize Federal programs and thus reduce the Federal Government's role in housing. Instead of doing this on a piecemeal basis, we feel that Congress should develop a formal national housing policy in order to provide a framework for the Nation's housing needs.

As a part of the deficit reduction package, the President's fiscal year 1986 and 1987 budget proposals included user fee provisions affecting FHA, VA, GNMA, Fannie Mae and Freddie Mac. In most instances, these user fees were not needed to aid the financial stability of these funds or the programs. And more importantly, these proposed fees were estimated to have a minimal effect on the national deficit. These fees would likely either increase the cost to the home buyer and/or discourage participation.

The bottom line is that we feel these fees would represent nothing more than a tax on the home buying public and we oppose them.

Now more recently, in the fiscal 1988 budget proposal that recommends user fee increases for only the FHA and the VA programs, the effect remains the same.

In the administration's attempt to reduce the deficit, we question whether these user fees would result in revenue gains for the Government. Instead, it appears more likely that these fees would reduce the use of FHA and VA as acknowledged by the administration's own request by decreasing the amount of funds needed for 1988 from $100 billion to $70 billion. In other words, the increased fees would likely net a loss to the Government instead of a gain.

Now, Mr. Chairman, at the time that we were preparing this statement we hadn't had the opportunity of reviewing Senator Proxmire's banking bill and I might say that we just had the opportunity—I personally had the opportunity of just looking at this yesterday for the first time, but we would like to commend Senator Proxmire on his timely introduction of this. We need to study it further but at least the thrust of this bill we certainly seem to support.

Tighter underwriting and credit standards have been recommended for the investor loan program in a 1986 HUD-FHA Task Force Report on Fraud and Abuse. NAHB supports the recommendations in this report, which did not recommend terminating the investor loan program. We urge this Committee to continue the investor loan program as a tool in providing needed rental housing.

## FHA ADJUSTABLE RATE MORTGAGES (ARMS)

Existing law restricts the volume of the FHA-Adjustable Rate Mortgage (ARM) to 10 percent of the previous year's overall FHA activity. Due to the record-breaking mortgage lending activity which occurred last year, HUD had to notify their field offices that authority to use the FHA-ARM program would be depleted by early spring-less than 5 months into the fiscal year.

The Committee bill reported during the second session of the 99th Congress would have increased the FHA-ARM cap to 40 percent. NAHB supports this needed increase.

The FHA-ARM program has proven itself to be a successful demonstration. It provides adequate protection to homebuyers by restricting the maximum annual increase in the mortgage rate to one percent per year with a cap of five percent over the life of the mortgage.

We urge this Committee to include a similar provision in this year's authorization bill.

## MORTGAGE INSURANCE LIMITS

Current law limits the maximum insurable FHA mortgage for Section 221(d)(3) and Section 221(d)(4) multifamily rental housing programs to limits set in the Housing and Community Development Act of 1978. Since then, the cost of living index has increased by more than 65 percent.

S.2507 contained an allowable 30 percent increase in the mortgage limits per rental unit based on the number of bedrooms in each unit. NAHB favored such an increase and we would welcome similar action in this Congress.

## MANUFACTURED HOUSING BUILT ON PERMANENT CHASSIS

The Manufactured Home Construction and Safety Standards Act of 1974 requires HUD to develop standards for the construction, design and performance of manufactured housing built on a permanent chassis. Housing built to these standards is exempt from state and local buildings codes. All other forms of housing must meet all applicable state and local building codes including stricter structural and energy requirements.

When HUD learned that some of their representatives had granted design approval which would permit removal of the chassis, field offices were notified that this practice was in violation of Title VI of the Act.

NAHB strongly urges this Committee not to change the definition of manufactured housing under the 1974 Act. If the chassis is removed from a manufactured home, it should not be eligible for the HUD code and should be required to meet all state and local building codes, including the higher energy standards required for conventionally built housing.

Otherwise, we are adding to consumer confusion which has already occurred in the marketplace. Manufactured homes removed from their chassis and placed on permanent foundations may have the outward appearance of conventional houses meeting local building codes. However, the structural and energy requirements are considerably less for those houses built under the HUD code.

HUD ASSISTED HOUSING PROGRAMS

Since 1980, the federal commitment to providing additional housing assistance through HUD's assisted housing programs has been greatly reduced with new budget authority decreasing by more than 70 percent.

While NAHB continues to support deficit reduction efforts, we believe housing programs have paid more than their fair share. It is time to reassess the federal commitment to housing for lower income families and the elderly.

The Housing Development Grant (HODAG) Program, the project based Section 8 loan management set aside and property disposition programs, and other Section 8 programs are all vital if we are to maintain adequate and affordable low and moderate income rental housing. To continue scaling back the number of project-based subsidized units each year will prove very costly indeed in the decade ahead. We urge you to maintain these programs at or near current authorizing levels.

BROADEN ELIGIBILITY FOR ASSISTANCE

In providing federal assistance to lower income families, a provision in the House version of last year's bill would have allowed a greater percentage of lower income families to be eligible for housing assistance. Specifically, the House bill would have permitted up to 25 percent of those families with incomes between 50 and 80 percent of area median income to occupy federally assisted

housing. Current law severely restricts the percentage of families in this income range to between 5 and 10 percent, depending on when the project was completed for occupancy.

Mr. Chairman, we have found that it is often the large family with a single head of household who is most severely penalized by this restriction. NAHB would support an increase in this limitation.

FAIR HOUSING TESTORS

Also included in the Committee Bill of the last Congress was a provision authorizing funding for fair housing testing, known as the Fair Housing Initiatives Program (FHIP).

NAHB supports fair housing and supported the FHIP program in last year's bill. We would urge the Committee to again include the guidelines for The Fair Housing Initiative Program.

COMMUNITY DEVELOPMENT

NAHB also supports maintaining the community development programs: Community Development Block Grants (CDBG), Urban Development Action Grants (UDAG), and the Rental Rehabilitation Grants (RRG). These programs are important contributors to maintaining the nation's existing housing and promoting neighborhood and economic development.

For example, about 30 percent of the CDBG program funds are used by local governments for rehabilitating existing housing, according to HUD. Reduction or termination of these programs would severely diminish the government's role to encourage retention of the existing housing stock.

RURAL PROGRAMS

Mr Chairman, we also strongly urge this Committee to adequately fund and support the Farmers Home Administration (FmHA) rural housing programs which have helped two million families, the elderly and the handicapped afford housing. The conditions which gave rise to authorization for FmHA to make housing loans in 1949 still exist today, but the commitment to providing housing in rural areas is in serious doubt as rural housing programs also have been reduced by over 70 percent since 1980.

The Administration's FY88 budget again proposes termination of existing rural housing construction programs, including the Section 502 single-family program, the Section 515 multifamily program and rural rental assistance. The budget substitutes $378 million for 21,200 vouchers specifically designated for rural areas and administered by Farmers Home.

NAHB believes the voucher system proposed by the Administration will not work in rural areas. A voucher does not provide needed new construction units in rural areas. The Congressional Research Service (CRS) projects a housing shortage in rural areas of 375,000 units between 1986 and 1990. Vouchers will not address this issue nor will they alleviate the problem of a lack of adequate housing for use with vouchers in many rural areas.

We urge the Subcommittee to reject the Administration's proposed voucher system which would replace the traditional rural housing construction programs.

Mr. Chairman, we also hope that you will retain provisions contained in last year's Committe bill which would provide relief for the Section 502 "40 percent rule," and which provided a conventional financing demonstration program for both Section 502 and Section 515. Under current law, 40 percent of Section 502 funding must go to very low income families earning 50 percent of

area median income or less. Because of difficulty in qualifying buyers which meet this requirement, 28 percent of the appropriation set aside for the very low income was not spent in FY86. S.2507 provided more flexibility by amending the law to allow the higher of 50 percent of non-metropolitan median income or 50 percent of HUD median income figures to be used. In this way, greater use of the Section 502 housing funds would occur as more very low income buyers would be eligible to qualify for loans.

Last year's bill also provided for a conventional financing demonstration program under both Section 502 and Section 515. Under the Section 502 demonstration, a private lender would make the loan, with interest credit allowance continued to be paid by Farmers Home but directly to the lender. A demonstration program for the Section 515 program was authorized at the Secretary's discretion.

While we support the concept of these programs, it is unlikely that a lender would make such a loan without the guaranty due to the weakened farm economies and high loan foreclosures in many rural areas.

SECTION 515 PREPAYMENT

Legislation passed in 1979 permitted the prepayment of FmHA Section 515 rural housing loans made prior to December 21, 1979, while putting a 20 year prepayment limitation on all subsequent loans. The Senate Banking Committee was instrumental in crafting this agreement and NAHB supported it.

Legislation passed in 1986, however, placed a nine month moratorium through June 30, 1987 on the prepayment of rural rental housing loans made prior to December 21, 1979 negating the agreement reached in 1979. The legislation allows prepayment only if comparable housing in the area is available, rents do not substantially increase or displacement does not occur.

NAHB opposes legislation which retroactively eliminates a borrower's contractual right to prepay FmHA housing loans. We do support assistance for displaced tenants in the form of increased rental assistance. NAHB also encourages the development of incentives to encourage proper maintenance and retention of the current rural housing stock available for low-income households.

## SECONDARY MORTGAGE MARKET ISSUES

NAHB firmly supports enhanced secondary mortgage market activities and we again want to emphasize our opposition to any new or increased user fees for GNMA, FNMA and FHLMC.

These secondary market agencies have long been leaders in new and innovative secondary mortgage market programs. Their status has promoted both the development of the secondary mortgage market as well as the development of new kinds of mortgage backed securities which later were adopted and expanded by private issuers. We seriously question whether this evolution would have occurred as rapidly or as positively if FNMA and FHLMC had been privatized or if their cost of funds had been higher.

We therefore oppose any restrictions on the purchasing authority of these entities and we urge that their purchasing authority be made permanent.

## MODULAR HOUSING STUDY

The House version of the housing bill contains a provision for a study of voluntary national standards for modular homes.

The purpose of such a study would be to describe feasible alternative systems for implementing a voluntary preemptive national code for modular housing, including panelized housing.

NAHB has been pleased by the development of regional compacts and believes that regional solutions may provide the best answer for overcoming the maze of conflicting state and local requirements.

We believe that this study may encourage such regional solutions and therefore we support its inclusion in the Senate Bill.

## LONG-RANGE ISSUES

Having addressed those issues which NAHB advocates for inclusion in this year's housing bill, I would like to focus on issues we feel are equally important, and on which we urge early consideration.

Mr. Chairman, I would like to call the Committee's attention to NAHB's "A Blueprint For National Housing Policy" which was adopted by our Board of Directors in January.

This blueprint, is a comprehensive statement of NAHB's views on key housing policy issues in today's environment which builds on our policy studies conducted in 1984 and 1985.

NAHB believes it is essential that a comprehensive national housing policy be developed to ensure an effective, efficient housing delivery system. In view of the many policy changes that have occurred in recent years, NAHB feels the entire policy-making process for housing needs to be reviewed and revised to increase its effectiveness. We welcome your interest, Mr. Chairman, in planning to undertake such an approach in the near future and we look forward to working with you on this task.

Among the issues we feel are ripe for discussion and potential legislation, I would like to focus on the following:

### PRESERVATION OF ASSISTED HOUSING STOCK

Two years ago, NAHB published a report providing a comprehensive analysis of lower income issues. In this study, we examined the issues involved in maintaining, managing, and preserving the stock of government assisted and public housing.

At current average development costs of roughly $40,000 per rental housing unit, the assisted rental stock, excluding Section 8 existing and voucher units, would cost in excess of $130 billion to replace. Therefore, retention and sound management of this housing stock are crucial for the households served by those units and for those who would have to compete for housing with those displaced by any reduction in the assisted housing stock.

Over the next decade, owners of much of this housing stock will face expiring federal subsidies and prepayment opportunities. Both the federal government and many private owners will face the choice of terminating or of continuing relationships under which subsidized private units are provided to low income tenants. NAHB believes that federal policy should work toward maintaining these relationships by renewing assistance contracts and by providing incentives for continued participation by private owners. The contractual rights of property owners to withdraw from programs should not, however, be abrogated in the process.

### FEDERAL CREDIT REFORM

We are concerned about a provision in the Administration's FY'88 Budget request on credit reform, which proposes to create a revolving fund at the Treasury Department. As stated in the budget document, "loan guarantees would be put on a basis comparable to direct loans."

While we have many questions about the proposal, we would strongly urge this Committee to challenge such unsound thinking. For the government to insure or guarantee a loan in the event of possible default does not commit the resources required under a direct loan program. Further, the purpose of the mortgage insurance premium is to provide the government with the revenue necessary to pay for such anticipated future claims. Mr. Chairman, to state that direct loans and loan guarantees are cut from the same cloth borders on the absurd. We urge this Committee to oppose any such credit reform and encourage you to seek referral of such legislation to this Committee.

### FHA SINGLE FAMILY MORTGAGE INSURANCE LIMITS

Mr. Chairman, we are interested in the issue of adequate mortgage limits for the FHA single-family program.

Current law establishes the maximum mortgage limit for single family housing at $67,500 with a maximum cap of $90,000 for high cost areas.

NAHB strongly supports having the FHA mortgage limit reflect both inflationary trends in the overall housing market as well as differences in housing costs in various parts of the country. The current FHA base limit of $67,500 has not been adjusted since 1979 and we believe that increasing the base and dealing with high cost area inequities are issues which should be considered by this Committee.

## RURAL ISSUES

NAHB's Rural Housing Council has defined some of the rural housing housing issues both in the short- and long-term and I would like to share them with you.

- Address the lack of consistent funding for rural housing programs by the Administration and Congress.
- Fund existing programs that are authorized but which have not been funded, such as the Section 502 guaranty program.
- Provide adequate funding for rental assistance to existing projects and provide assistance for new construction.
- Address the loss of funds allocated to programs not being used, including the transfer of those funds to other rural housing programs.
- Develop alternative methods of financing for rural housing programs including secondary market participation, tax-exempt financing, HUD and other government financing including state and local government funding.

We would look forward to exploring these issues with you in depth at the appropriate time.

## ENERGY CONSERVATION

The issue of energy conservation remains significant. Program authority for the Solar Energy and Energy Conservation Bank expires at the end of 1987. NAHB supports its extension. The HUD Solar Bank was authorized to provide loan assistance and matching grants for low-and moderate-income families to purchase energy conservation and solar energy improvements.

Current Administration policy advocates eliminating a federal role in residential energy conservation efforts and has succeeded to a large extent by elimination of energy tax credits at the end of 1985 on residential structures, substantial reduction in funding of energy conservation research including the crucial area of building systems at the Department of Energy, and elimination of additional funds for the HUD Solar Bank since 1986. Various other DOE programs targeted directly to housing also have been greatly curtailed.

Mr. Chairman, NAHB believes the combination of these events will result in a waste of our energy resources as well as an added cost to consumers.

## SUMMARY

In summary, Mr. Chairman, NAHB encourages this Committee to support housing legislation similar to the bill reported by the Banking Committee during the second session of the 99th Congress, authorizing these programs at or near their current 1987 levels.

We also encourage the Committee to begin to consider long term housing issues as part of an overall review of national housing policy, several of which we have raised in this statement.

Thank you for the opportunity to present our views. I will be happy to address any questions you may have.

Now on another issue, in 1982, the Supreme Court declared testing as the law of the land and the National Association of Realtors fully supports the Nation's fair housing laws. We recognize the use of the enforcement tool of testing, but only if the use of such tools is based on reasonable and objective standards.

And, Mr. Chairman, herein lies the basis for our ongoing concern with the Fair Housing Initiatives Program [FHIP] since it was first introduced. We became concerned that for the first time direct Federal funds would be used to support testing of real estate practitioners without any standards or guidelines.

By way of background, in early 1986, at the request of Senate and Housing banking leaders, the National Association of Realtors began discussions with HUD in order to seek an agreement on a set of program standards or guidelines to accompany the FHIP. As a member of that negotiating team, I am proud to say that after 6 weeks of intensive work that we were able to reach a balanced set of testing guidelines with HUD which were approved by the National Association of Realtors Board of Directors in May 1986.

These guidelines assure fair play by both sides. For example, that the testers cannot seek economic gain from those that they test, that the Federal funds are dispersed to qualify testers, and that funds will be spent on authorized activities. Secretary Sam Pierce agreed to go forward with regulations based on these guidelines as part of the testing program.

Now even though the National Association or Realtors would prefer that the guidelines be included in statutory language, we nonetheless offer an alternative in the spirit of reasonableness that FHIP be authorized as an experimental program that would automatically sunset in 2 years. We would no longer insist that guidelines be written in the statute, but would request that the substance of the understanding, that HUD would implement the guidelines for a period of 2 years following enactment, would be included in the committee reports accompanying the statute.

In short, FHIP, the guidelines, and the regulations would be sunset after the 2-year period.

Now, Mr. Chairman, we do not want to be placed in the position of opposing the Fair Housing Initiatives Program, but if we cannot receive satisfactory assurance that the guidelines will be included in the statutory language or that FHIP will be authorized as an experimental program, then we will have no other alternative but to oppose the enactment of FHIP into law. We earnestly hope that you would support this viable alternative and we thank you very much for your time.

You have seen our written testimony that's been presented to you earlier and if there are any questions that you have I'd be glad to try to answer them.

[The complete statement of Nestor R. Weigand, Jr. follows:]

## STATEMENT OF THE
## NATIONAL ASSOCIATION OF REALTORS®
## BEFORE THE
## SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
## SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

BY

NESTOR R. WEIGAND, JR.

PRESIDENT-ELECT

FEBRUARY 19, 1987

### INTRODUCTION

Mr. Chairman, my name is Nestor R. Weigand, Jr. I am a REALTOR® from Wichita, Kansas, and will serve as President of the NATIONAL ASSOCIATION OF REALTORS® in 1988. On behalf of the more than 775,000 members of our ASSOCIATION, I want to thank you and the members of your Subcommittee for the opportunity to present our views on housing issues and future housing legislation.

Over the past six years, the NATIONAL ASSOCIATION OF REALTORS® has reviewed, analyzed and commented upon a multitude of changes this Administration has proposed regarding the various federal housing credit programs. We are here today to, once again, express our concerns about the relentless, piecemeal approach of the Administration to dismantle these programs. It appears evident that the Administration will continue its efforts to privatize these federal programs in order to further its objective of reducing the federal government's role in housing. In keeping with the efforts of the National Association of Home Builders, the Mortgage Bankers Association and this ASSOCIATION, we believe that it is imperative that Congress develop a formal NATIONAL HOUSING POLICY in order to provide a reasoned framework in which to address this nation's housing needs. Our members are of the strong opinion that there continues to be a very necessary role for the federal government to play in housing, and are convinced that the American public would agree.

### THE ADMINISTRATION'S FY1988 BUDGET PROPOSALS

#### "User Fees"

As part of the deficit reduction campaign, the President's FY1986 and FY1987 budget proposals included "user fee" provisions affecting the Federal Housing Administration (FHA), the Veterans Administration Home Loan Guaranty Program (VA), the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal Home Loan Bank System (FHLB). In most instances, these "user fees" were not needed to aid the financial stability of the respective insurance funds or the programs themselves. Furthermore, the proposed fees were estimated to have a minimal effect, at best, on the national deficit. However, if these "user fee" provisions had been imposed, they would have had a dramatic negative impact on the participation and use of the programs by the homebuying public. Depending upon the type of program, these fees would have either increased the cost to the homebuyer and/or discouraged participation. These fees represented nothing more than a "tax" on homeowners, and we strongly opposed them.

o FHA: Although the Administration's most recent FY1988 budget proposals recommend "user fee" increases for only FHA and VA, the effect remains the same. In the case of FHA, the Administration has recommended an increase in the existing fee, the FHA mortgage insurance premium (MIP), from the current 3.8 percent to "a level on par with those that private insurers would charge to provide a comparable guarantee." While the Department of Housing and Urban Development (HUD) has estimated that this level would be 5 percent, representatives of the private mortgage insurance industry have indicated that determining the premium level is very difficult, and have named no specific percentage increase.

The Administration's previous and current rationale for this increase is that the default experience of FHA loans originated in the 1981-1982 period would require the FHA to provide additional protection to the FHA insurance fund in the event of "unanticipated future losses." Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® has conducted an analysis of the FHA Mutual Mortgage Insurance Fund (MMIF). After a review of the most recent acturarial experience, it is clear that there is absolutely no need to raise the FHA MIP. In fact, there is substantial evidence to support a reduction in the existing 3.8 percent level.

Furthermore, according to our study, the principal justification for the Administration's proposal to raise the MIP (to provide additional protection against future losses from 1981-1982 defaults) is flawed. The 1981-1982 default experience is an aberration from the long-term experience of the FHA

203(b) program. In addition, the high mortgage interest rates and large monthly mortgage payments which contributed to the high default rates for 1981 and 1982 have resulted in extremely high non-claim terminations (prepayments and refinancings). Finally, the point of the maximum rate for bad loans originated in 1981 and 1982 is over because default rates on FHA mortgages traditionally peak in the third year after origination. As a result, the total number of mortgages that would be available to default from 1981 and 1982 is very low.

In summary, Mr. Chairman, the proposed increase in the MIP is completely unjustified based on the current soundness of the MMIF. Since 1940, FHA has been self-supporting, and there is no evidence to support the contention that the Fund's current reserves ($4.3 billion as of December 31, 1986) are inadequate to cover any "future anticipated losses." Indeed, the high level of over-insurance that the MMIF enjoys could easily justify a decrease in the MIP.

The NATIONAL ASSOCIATION OF REALTORS® also questions the Administration's proposed fee increase as a means to reduce the federal deficit. It appears more likely that these fee increases would reduce the use of FHA and VA and, therefore, result in a reduction in revenue to the respective insurance funds. In fact, the Administration acknowledges this phenomenon in its FY1988 request for FHA credit authority which presupposes a reduction in FHA loan activity due to the fee increase and other FHA program restrictions. (See page 8 — for details on program restrictions) In other words, the increased fee would likely net a loss to the government instead of a gain.

o GNMA: In December, the Government National Mortgage Association (GNMA) announced that it was implementing, effective March 1, 1987, a change in the allocation of the existing 50 basis point fee collected by issuers of GNMA mortgage-backed securities (MBSs). Currently, the fee is split between loan servicers who retain 44 basis points and GNMA which receives the remaining 6 basis points. GNMA'S share is forwarded to the GNMA Mortgage-Backed Investment Portfolio, the reserve fund which backs the GNMA guarantee. Under GNMA'S proposed change, the 6 basis points which reverts to GNMA will be increased to 10 basis points, thus reducing loan servicers' fees to 40 basis points.

According to GNMA officials, this fee increase is necessary in order to bolster existing reserves and insure that GNMA could withstand any future recessions without borrowing from the Treasury. While we realize that this reallocation in the 50 basis point fee is the first in GNMA'S history, the NATIONAL ASSOCIATION OF REALTORS® does not believe that such a change is necessary at this time, and that it will ultimately have a detrimental affect on future FHA/VA homebuyers.

According to our data, the GNMA reserve fund is in sound condition, with a balance of $1.35 billion as of September 30, 1986. At the end of fiscal year 1986 the total loss to the fund over its entire 17 year history was $10.6 million. Never has this fund been required to meet a total agency loss. All the losses to the GNMA program have been funded from current earnings.

At the close of fiscal year 1986, $333,619 billion worth of GNMA securities had been originated. The GNMA reserve fund is currently invested in U.S. Treasury securities. According to GNMA, investment earnings to the reserve fund in fiscal year 1986 were about equal to the annual guarantee fee

income. Thus, the combined guarantee fee and investment earnings to the GNMA reserve fund per fiscal year amounts to approximately $275 to $300 million. Like the FHA 203(b) single family program reserve fund, the MMIF, the GNMA reserve fund is over-collateralized. According to GNMA, the proposed fee increase will generate an additional $10 million to the reserve fund in fiscal year 1987, with the greatest increases to the fund to occur in later years.

The change in the current fee structure will result in a reduction of the basis points which are currently retained by the loan servicer. This 4 basis point loss amounts to a 9 percent decrease in servicing income. This increased cost to the mortgage originator is certain to be passed on to potential homebuyers in the form of higher points for VA loans, and a combination of increased points and higher rates for FHA loans.

Furthermore, not all loan servicers will be willing to absorb the reduction in servicing income. Therefore, many originators will be more likely to sell these loans to wholesale mortgage banking companies as "servicer-released." As a result, not only will the number of GNMA issuers be reduced, but the amount of servicers who will pass on the fee will increase.

### FHA Operating and Credit Authority

o FHA Operating Authority: Mr. Chairman, last year we watched with disappointment and frustration, as FHA's operating authority expired six times. Each time there were incredible market delays as Congress debated this issue. In addition, due to unprecedented mortgage volume, FHA's insuring authority was depleted during the year.

The response from the public and the industry was dramatic. Thousands of prospective homeowners experienced delayed loan settlements, "backlogged" processing of their mortgages, and payment of higher interest rates because their lower rate commitments had expired. The disruptive effects of this situation were significant and could have been avoided.

For these reasons, the NATIONAL ASSOCIATION OF REALTORS® strongly supports legislation providing a permanent operating authority for FHA. At the very least, however, Congress should adopt a "clean" extension of FHA authority for one full fiscal year.

o FHA Credit (Insuring) Authority: Last year Congress authorized a credit (insuring) level of $100 billion for FHA. The Administration has recommended a level of $70 billion for FY1988, predicated upon the belief that HUD recommended FHA program restrictions will be adopted, thus reducing the number of insurance commitments required under FHA. (See page 8 -- for details on program restrictions)

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® is not as confident as the Administration that Congress will permit the implementation of these program limitations. Therefore, we do not share the opinion that $70 billion will be an adequate credit authority for FY1988. Furthermore, we strongly believe that it is important to provide sufficient credit levels so as to avoid chaotic and market-disruptive operational stoppages, such as those experienced in FY1986. We strongly urge this Committee to provide a credit authority level of at least $100 billion for FY1988.

o GNMA Guarantee Authority: The Administration's budget calls for a reduced guarantee level for GNMA of $100 billion, down from the FY1986 level of $150 billion. In order to ensure uninterrupted operation of GNMA'S MBS guarantee program, the NATIONAL ASSOCIATION OF REALTORS® recommends that

Congress approve legislation providing for a GNMA guarantee level of at least $150 billion.

## ADMINISTRATION/HUD'S LEGISLATIVE PROPOSALS

Separate, but not apart from the Administration's efforts, the Department of Housing and Urban Development (HUD) has made numerous legislative and regulatory proposals through its budget process which would alter fundamental aspects of the FHA program, and thereby, further restrict and reduce the participation class of FHA borrowers. In fact, Mr. Chairman, when these program limitations are combined with the Administration's "user fee" recommendations, participation by both the bottom and upper tier segments of FHA's clientele will, for all intents and purposes, be barred from using the FHA 203(b) program. I will discuss each of these proposals separately:

### Excluding FHA Closing Costs from the Total Acquisition Cost

Mr. Chairman, the Administration has recommended that FHA borrowers be required to pay closing costs, in cash, at the time of origination. Currently, FHA borrowers can finance closing costs over the life of the loan.

Although this proposal does not alter the existing treatment of the mortgage insurance premium which can also be financed over the life of the loan, excluding closing costs from the total acquisition cost will make it more difficult for potential homeowners to secure a loan by increasing the amount of cash required at origination.

Using 1985 FHA statistics (the most recent available), the ASSOCIATION estimates that the average downpayment required for an FHA loan would increase by approximately $1,250 if this proposal were adopted.

Our data further indicates that FHA borrowers already have very minimal cash reserves after settlement. On average, the ASSOCIATION'S survey showed that the typical FHA homebuyer had $1,150 in reserve after closing. However, our survey also reported that over two-thirds of FHA borrowers had cash reserves lower than this figure. Clearly, increasing the amount of cash required by FHA borrowers who are already starved for cash will effectively prevent those otherwise qualified applicants from using the program.

## Deregulation of the One Percent Lender Origination Fee and Post Endorsement Fees

The Administration has also suggested lifting the current one percent limit on the lender origination fee for FHA loans.

Like the proposal to prohibit closing costs from being financed, this recommendation will also increase the costs of obtaining an FHA mortgage. Those borrowers who are already burdened by these added costs, those who have minimal resources--usually first-time homebuyers--will be eliminated from participating in the FHA program. It is ironic, Mr. Chairman, that the very segment of potential homeowners that this and other proposals will eliminate is the very same class that FHA was originally chartered to serve.

Similar in its scope, is the Administration's proposal to deregulate FHA post-endorsement fees, which would also place another financial burden on FHA borrowers. An example of how this change would be used is HUD's recent assumability modification which requires a credit check on all assumptors within 24 months of origination or previous assumption. HUD has authorized a credit check fee of up to $500, which under this proposal, could be increased, thus imposing an even greater burden on FHA users.

## Underwriting Criteria

The Administration has also proposed that conventional housing expense criteria be used in underwriting FHA loans. FHA's current housing expense-to-income ratio is 38 percent with a long-term debt-to-income ratio of 53 percent. If this criteria were changed to conform to conventional standards, a 25/33 proportion would be required.

Once again, Mr. Chairman, as with many of the Administration's other proposals, this particular recommendation alters a very fundamental component of the FHA program, which was established to promote availability of mortgage financing to homebuyers underserved by the conventional market.

The ASSOCIATION strongly opposes this suggestion. Perhaps more than any other proposal advanced by the Administration, this specific change would deny a substantial number of potential FHA users the opportunity to own a home. Given the small percentage of FHA users who could qualify under conventional criteria, implementation of this proposal will do little to further the Administration's goal of making FHA more competitive with the private sector.

## Increased Downpayment for Families Earning Over $40,000

In offering its various FHA recommendations, one of the Administration's recurrent themes is that FHA is competing unfairly with the private mortgage insurance industry, and that efforts should be made to minimize and/or eliminate this competition.

One such recommendation offered is the proposal to require a minimum 5 percent downpayment for families earning over $40,000 per year. On its face, Mr. Chairman, it might appear that this is a "reasonable" proposal intended to target FHA's benefits.

However, on closer examination, one finds that this is not actually the case for a number of reasons. First, it is important to remember that only about 14 percent of all homebuyers in 1986 used FHA insurance. Of that 14 percent, only about 25 percent have incomes greater than $40,000. While those higher income families who use FHA insurance may be able to qualify for private mortgage insurance, the majority of these homeowners have significantly different characteristics than those borrowers using private mortgage insurance.

According to ASSOCIATION data collected through our mortgage finance survey in the spring of 1986, FHA homebuyers possess differing income, age and ownership characteristics than those in the conventional market. On average, FHA homebuyers are over 2 years younger and have annual incomes of about $10,000 less than homebuyers using private mortgage insurance. Furthermore, we found that FHA borrowers are generally first-time homebuyers. Finally, our survey showed that loan-to-value ratios for conventional market users averaged about 80 percent, compared to 92 percent for FHA users.

If a potential homebuying family with an annual income greater than $40,000 was not able to afford an FHA-required 5 percent downpayment, they would be forced to seek private mortgage insurance in the conventional market. However, if the family was unable to afford a FHA loan, it is unlikely that they could qualify in the conventional market. Most probably, these families would be denied the opportunity to purchase and own a home.

The NATIONAL ASSOCIATION OF REALTORS® is also concerned about eliminating participation of higher-income borrowers in the FHA 203(b) program because these loans act to reduce the average default characteristics of all FHA borrowers through lower loan-to-value ratios. According to HUD'S statistics, FHA borrowers with lower LTVs, all other things equal, have much lower default rates.

We also view the Administration's proposed increased downpayment proposal as a discriminatory one, because it fails to recognize the effects of a minimum downpayment on high cost regions. Furthermore, the proposal discriminates against dual income earning households, a segment of the market which has the highest homeownership rates.

Finally, the ASSOCIATION is concerned about the effects this proposal will have on the secondary mortgage market, specifically the adverse impact on future default risk on FHA mortgage pools which back GNMA MBSs. Changes in this risk, we believe, would gradually increase the required yields on GNMA MBSs, negatively affect their future price, and ultimately increase the interest rate and/or points charged on FHA loans.

Elimination of Investor and Second Homes

The ASSOCIATION is opposed to any limitation of eligibility in the FHA single-family insurance program to only purchasers of primary (owner-occupied) residences.

In 1986, HUD Secretary Pierce appointed an internal task force to investigate allegations of fraud and abuse in the FHA program. This HUD Task Force revealed that the highest incidents of foreclosures, in proportion to the FHA participant class, were in the investor portion of the FHA program.

Our ASSOCIATION, along with allied housing trade associations, worked closely with HUD to review, comment, and eventually support many of the recommendations made by the HUD Task Force. In fact, a number of these recommendations have already been implemented through agency administrative directives. However, the Task Force never recommended the elimination of the investor and second home portions of the FHA program. HUD and the Administration contend that investor and second home FHA loans are inherently risky and therefore, should be excluded from the FHA program. We maintain that this is not a valid argument because such an exclusion would have only a minor impact on the risk to FHA's MMIF. Furthermore, we believe that this proposal is, ultimately, far too drastic a solution to a problem that is already being addressed through tighter administrative standards (as discussed later in this section).

Excluding investor loans from the FHA program is also ill-advised because the percentage of investor loans constitutes a very small amount of the loans insured under the MMIF. In 1983, for example (the most recent period for which data is available), just 8.1% of FHA endorsements were classified as investor loans.

Elimination of investor loans from the FHA program would also seriously affect the single-family home rental market. It has been estimated that over one third of the 32 million renters in this country currently reside in one-to-four family residences. Eliminating investors from the FHA program would hurt a substantial portion of the rental market and affect those renters who choose not to live in multifamily dwellings.

It can also be demonstrated that claim rates have peaked for all loans endorsed during 1981 and 1982. Since the claim rates have already peaked due to a period of high interest rates, it is reasonable to conclude that the claim rates for investor/second homes have also peaked.

As for the fraud and abuse reported in this portion of the FHA program, in February 1986, HUD reported that three regions in the country had a substantially higher incidence of investor loan problems. The HUD study concluded that certain FHA field offices had unusally higher claim rates, indicating problems that may have involved fraudulent activities on the part of some investor mortgages.

The occurrence of fraud and abuse in the FHA program was a considerable contributing factor in the high claim rates experienced for FHA loans endorsed during 1981 and 1982. However, we believe that the appropriate means to address this problem is not to eliminate the investor from the FHA program. Rather, the problem of fraud and abuse should be addressed more directly. The ASSOCIATION commends HUD for taking this approach and points to the 1983-1985 claim rates as reflective of the following actions taken by HUD:

- o Underwriting criteria have been tightened;
- o Appraisal requirements have become stricter;
- o The Mortgage Insurance Premium (MIP) has been restructured, resulting in its current form; and
- o The Direct Endorsement program, which has lower claim rates than the traditional field of underwritten loans, has been implemented.

We have endorsed these changes and have also advised HUD on their implementation. Further efforts in this regard will go further to eliminate fraud and abuse in FHA loans rather than eliminating investors from the FHA program.

## CHANGE IN FHA ASSUMPTION POLICY

Easy assumability has been a feature of the FHA-insured mortgage since the inception of the FHA program. It is widely acknowledged that this feature has been instrumental in increasing the marketability of homes with a FHA-insured mortgage. In today's market where most fixed rate conventional mortgages contain "due-on-sale" clauses, the FHA and VA programs are one of the last bastions of fixed payment mortgage instruments which allow assumability.

Especially during periods of rising interest rates, the free assumability of FHA-insured mortgages has often substantially enhanced the value of a home. The buyer benefits because he or she can assume a loan below the prevailing market rate. This assumability also translates into a benefit for the seller by increasing the demand and thus, value for his/her home.

However, based on a HUD administrative announcement (HUD Mortgagee Letter 86-15), this FHA assumption policy was changed on December 1, 1986. The new policy requires a full credit check of any and all borrowers seeking to assume a FHA mortgage within 24 months of origination or of a previous assumption. HUD will permit lenders to charge up to $500 for this new credit check. Subject to HUD'S discretion, the loan can be called by the lender if the transacting parties neglect to obtain this credit check. By restricting the free assumability of the FHA loan, this change institutes a "quasi due-on-sale clause."

The NATIONAL ASSOCIATION OF REALTORS® submits that this new restriction on the assumability of FHA-insured mortgages will be detrimental to both sellers and potential buyers of such homes. For example, a prospective seller of a home subject to a FHA-insured mortgage cannot, without risking immediate acceleration of that mortgage, sell his or her home to a prospective purchaser who is willing to assume the existing mortgage but is not interested in undergoing an expensive, burdensome, and time-consuming credit check.

This change in the assumability of an FHA-insured mortgage could also have

a long-term, negative impact on the FHA-MMIF. According to HUD officials, this new credit check requirement was devised in order to preclude "non-creditworthy" individuals from assuming a FHA mortgage and later defaulting on the payments. However, by requiring this credit check, it is now likely that potential homebuyers who, at one time, were willing to take over the monthly mortgage payments from a seller who was experiencing serious financial difficulty, will no longer be amenable to assuming the FHA mortgage because of the additional cost and time imposed by the new requirement. Therefore, financially-strapped homeowners with a FHA-insured mortgage will have few other alternatives but to default on their FHA mortgage. When this occurs, FHA must pay the claim and take title of the foreclosed property. FHA is then monetarily responsible for both the management and disposition of the property.

Based on the average claim rates from 1970 to 1985, it is estimated that in 1986 approximately 860 homeowners would have defaulted due to the delays caused by this new credit check process.

According to HUD data, the weighted average mortgage amount was $52,826 for loans originated in 1984 and 1985. The average loss claim for an FHA mortgage, was approximately 35 percent of the outstanding principal for that same period, or $18,595 per claim. This average claim loss, multiplied times the number of homeowners who would default due to the delays caused by the credit check process (i.e., 860 homeowners), would cause a loss to the MMIF of over $15.9 million. Losses to the MMIF, such as these, clearly could not be maintained on an annual basis without some damage to the FHA Section 203(b) program.

Of a more procedural nature, this fundamental change in the FHA program was made through an administrative announcement known as a Mortgagee

*Letter*. The NATIONAL ASSOCIATION OF REALTORS® strongly believes that a change of this type and magnitude should have been made through the federal agency rulemaking process. For this reason, the ASSOCIATION filed a legal suit last October against HUD/FHA claiming that the procedure used to implement this change was in violation of the Administrative Procedures Act (APA). The law suit is presently pending before the Federal District Court for the District of Columbia, and a decision is expected sometime in March.

## INCREASE IN THE FHA ARMs VOLUME CAP

This provision of the FHA program has been monitored very closely by the NATIONAL ASSOCIATION OF REALTORS®. The "cap" amount, based upon a percentage of the total volume of home mortgages insured by FHA during the previous fiscal year, has been and is currently 10% of that volume.

The ASSOCIATION supports an increase in the FHA ARM's volume cap of "up to 20%", as long as there is a corresponding increase in the FHA credit (insuring) authority. We have also proposed legislative report language (included in the House report of H.R. 1 in 1986) which specifies that the number of FHA ARM units, at whatever percentage, is NOT a set-aside of FHA credit authority which acts to reduce units for the fixed rate program.

## INCREASE IN FHA LOAN LIMITS

The NATIONAL ASSOCIATION OF REALTORS® has long advocated a re-evaluation of the existing loan limits for FHA. As you know, Mr. Chairman, the maximum FHA loan limit for single-family loans is $67,500, except in HUD-designated high cost areas, where the base limit can be increased up to $90,000. Hawaii and Alaska are special high cost areas, and loan limits in those regions can be increased beyond the $90,000 limit.

Despite the considerable home appreciation over the past several years, neither the base limit nor the high cost calculation has been updated since 1979.

According to the ASSOCIATION'S *Existing Home Sales Reports*, existing home prices have appreciated by 44.2 percent since 1979. Clearly, the FHA loan limit needs to be readjusted to reflect home appreciation. Until this is accomplished, potential homebuyers will continue to face discrimination due to antiquated market standards.

If the limits were raised to reflect the 44.2 percent appreciation, we estimate that new FHA loan limits would range from $97,300 to $129,600.

## EXTENSION OF THE SECONDARY MORTGAGE MARKET ENHANCEMENT ACT

The NATIONAL ASSOCIATION OF REALTORS® supports the extension of Title II of the *Secondary Mortgage Market Enhancement Act*, which is due to expire September 30, 1987. We are especially interested in seeing that the authority granted to the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) to purchase second mortgage loans is extended.

Second mortgages are an increasingly important source of financing for homeownership. The availability of affordable second mortgage funds makes it possible for others to sell their current homes so that they can buy new ones.

The ASSOCIATION supports extension of this authority for FNMA and FHLMC, and continues to oppose any efforts to weaken the continuing ability of GNMA, FNMA AND FHLMC to provide funds for home mortgages and to respond to market changes.

## FAIR HOUSING INITIATIVE PROGRAM (FHIP)

The NATIONAL ASSOCIATION OF REALTORS® fully supports our nation's fair housing laws. We also recognize the use of the enforcement tool of testing but only if the use of such tools is based upon reasonable and objective standards. Herein lies the basis of our ongoing concern with the Fair Housing Initiatives Program (FHIP) since it was first introduced as part of HUD'S FY1986 budget request.

With this new program the ASSOCIATION became concerned that, for the first time, direct federal funds would be used to support testing of real estate practitioners by private self-appointed fair housing organizations without any procedural safeguards or guidelines.

During 1985 and into 1986, the NATIONAL ASSOCIATION OF REALTORS® opposed the authorization of FHIP because of the absence of any standards by which the testing component of FHIP would be implemented.

In early 1986, at the behest of Senate and House Banking Committee leaders, the ASSOCIATION began discussions with HUD in order to seek an agreement on FHIP. After 6 weeks of solid discussions, HUD and ASSOCIATION President Clark E. Wallace signed an agreement which placed our support behind the FHIP program. At the same time, HUD and the ASSOCIATION worked out a fair and balanced set of testing guidelines, which were approved after considerable debate by our Board of Directors in May of 1986. These guidelines assure fair play by both sides. They also assure that federal funds are disbursed to trained qualified testers and that the funds will be spent on authorized activities.

Secretary Pierce of the Department of Housing and Urban Development has agreed to proceed with regulations based on these guidelines as part of the testing program, and has given his assurance that the guidelines will govern both funding and program performance under the testing portion of the Fair Housing Initiatives Program.

Mr. Chairman, as I previously mentioned, the the ASSOCIATION'S Board of Directors approved the guidelines this past May, but with one stipulation, that the guidelines be included in the statutory language authorizing FHIP. This was prompted because of a genuine concern among our members that the regulations and the guidelines might be changed by the direction of a future HUD Secretary, thus our emphasis on the statutory language itself. We advocated this position through 1986 and continue to advocate this position today.

However, in an effort to "break the logjam" which contributed to the prevention of passage last year, our Board of Directors moved to meet the objections of several members of Congress.

Even though the ASSOCIATION would still prefer that the guidelines be included in statutory language, we nonetheless offer an alternative in the spirit of reasonableness: that FHIP be authorized as a demonstration program — at a spending level of around $3 million per year — that would automatically sunset after 2 years. We would no longer insist that guidelines be written in the statute, but would request that the substance of the understanding--that HUD would implement the guidelines for a period of two years following enactment--would be included in Committee reports accompanying the statute. In short, FHIP, the guidelines and the regulations would be sunsetted after the two-year period. Congress and whatever Administration is in office two years after enactment would then presumably wish to review the actual experiences with this program and act in the future accordingly.

We believe that the dual sunsetting of the FHIP program and the guidelines will prove useful to the Congressional debate surrounding the guidelines. By allowing the FHIP program and the guidelines to be a demonstration then you, the Congress, can determine whether or not the guidelines proved effective for responsible testing programs.

As real estate practitioners, our position on FHIP has always been premised on the belief that we should be afforded the same kind of protections that others in our society receive. Are those being tested at risk without even the allegation of a wrongdoing? Are the testing procedures fair? Are the testers independent and qualified? The proposal we recommend would aid in producing the right answers in the interest of all concerned and involved.

Mr. Chairman, we do not want to be placed in a position of opposing the Fair Housing Initiatives Program, but if we cannot receive satisfactory assurance that the guidelines will be included in statutory language or that FHIP will be authorized as a demonstration program, then we will have no alternative but to oppose the enactment of FHIP into law. Rather, we earnestly hope that you would support this viable alternative.

## FHA MULTIFAMILY ISSUES

Mr. Chairman, I would now like to address three issues dealing with federally-assisted multifamily housing programs in which the NATIONAL ASSOCIATION OF REALTORS® and its affiliate, the INSTITUTE OF REAL ESTATE MANAGEMENT (IREM), take interest: Prepayment of FHA-Insured Multifamily Project Loans, Multifamily Housing Preservation Loans, and Tenant Participation in Multifamily Housing Projects.

By way of background, IREM currently has approximately 3,900 Certified Property Managers® (CPM) managing 30 percent of this Nation's multifamily residential housing for a total of 11 million units. Of these units, IREM members manage approximately 1.2 million federally-assisted units.

### Prepayment of FHA-insured Multifamily Project Loans

In the mid-1960's, the federal government began to use private ownership as a vehicle to provide subsidized multifamily housing for lower-income families. Through programs such as the SEC. 221(d)(3) Below-Market Interest Rate (BMIR) and the SEC. 236 FHA-Subsidized Multifamily Housing Program, the federal government provided a low interest-rate subsidy and a federally-insured mortgage to the owner who agreed, in exchange, to provide housing to low- and moderate-income tenants at below-market rents.

As an additional incentive, the federal government also constructed these programs so that many owners were contractually guaranteed the right to prepay the mortgage 20 years after the loan origination date and terminate the user restrictions in order to convert the property to other purposes. Since most of these privately-owned multifamily properties were developed between 1965 and 1975, particularly during the period between 1970 and 1975, contracts are now starting to approach the 20-year date by which owners may request permission from HUD to prepay the mortgage.

From 1980 through 1985, 12 projects containing 676 units had their restrictions to low- and moderate-income occupancy removed because of prepayments or voluntary terminations. According to HUD estimates, over the next 11 years, 2,715 projects with 306,198 units will become eligible for prepayment without HUD approval. In addition to FHA-insured projects, those units subsidized under SEC. 8 of the 1974 Housing and Community Development Act are affected through expiring rent subsidy contracts which were first written in 1975. According to HUD, approximately 100,000 of the SEC. 8 units in projects will be eligible for mortgage prepayment in the near future.

Although some project owners are expected to exercise their legal right to prepay the mortgage and use the property as they choose, HUD estimates as many as 75 percent of eligible project owners will not prepay primarily because their projects are now located in low- and moderate-income areas and their prospects for serving higher income markets would be negligible. For those projects which would prepay, some will still have SEC. 8 subsidies attached to their units. HUD expects that based on a very low activity of "opt-outs" in the past, many projects with SEC. 8 subsidies will continue until the contracts expire.

HUD is currently taking a case-by-case approach to requests for prepayments and will provide inducements for owners to continue the low- and moderate-income character of the project through rehabilitation programs. In its FY1988 budget proposal, the Department also plans to provide special assistance in the form of vouchers to tenants affected by prepayments and opt-outs.

The partnership between private owners and the federal government has benefited low- and moderate-income housing residents and has helped minimize the pressure on the supply of unassisted housing affordable to other low-income households. While the NATIONAL ASSOCIATION OF REALTORS® and IREM believe federal policy should work toward maintaining these relationships by renewing assistance contracts and providing appropriate inducements for continued participation by private owners, we oppose any attempts to change the terms of an existing contract by disallowing an owner's right to prepay their multifamily housing loan. Any retroactive action to disallow an owner's contractual right to prepay a multifamily loan would have the effect of eliminating any possible future incentive for the private investor or owner to participate in federal housing programs.

At the same time, we believe options should be explored whereby the needs of the tenants can be met while maintaining the legitimate rights of the owners to dispose of their properties. Mr. Chairman, we look forward to working with subcommittee members and staff in achieving this goal.

### Multifamily Housing Preservation Loans

Based on a 1984 study, it is estimated that the value of the existing stock of SEC. 221(d)(3) BMIR, 221(d)(3) rent supplement, and SEC. 236 projects is as high as $10 billion. It is essential that this significant investment be preserved. With the provision of a comparatively modest capital improvement loan program, billions of dollars in badly needed low- and moderate-income housing stock can be saved.

Since 1975, the ASSOCIATION and IREM have been concerned with the lack of proper replacement reserves for federally-assisted multifamily properties.

Senator CRANSTON. Thank you very much.

Mr. Simon.

## STATEMENT OF JOHN SIMON, PRESIDENT, NATIONAL HOUSING CONFERENCE, WASHINGTON, DC

Mr. SIMON. My name is John Simon. I am the president of the National Housing Conference, which is the oldest housing organization in the country and has indeed been in existence since 1931. I would like to say that based on the comments that Senator Cranston and Senator D'Amato made, for the first time in 6 years I think we see some light at the end of a long 6-year tunnel.

Senator CRANSTON. I'm glad you recognize that.

Mr. SIMON. If our voices are more strident and urgent today, this is because the tunnel has been so long and so dark.

I have submitted written testimony in reference to both the comments that you've made on the Senate bill and on specific issues.

I would just like to put them for a minute into the context in which I think they have been made.

### HOMELESS IN AMERICA

We feel that you can't have social stability in this country if you have no housing for low- and moderate-income families. If you have the number of homeless that exist in so many cities, if you have people sleeping in the streets, if you have people sleeping in city halls like happened recently in Los Angeles, if you have families overcrowded into one bedroom apartments, if you have people paying more than 50 percent of their income for rent, then you cannot have a sound family life.

If children don't have a place to do their homework, you can't have them do well in school. And I believe that if something isn't done about it now, we will have to pay a terrible price later on. We are beginning to pay the price for the homeless problem but it isn't just the homeless that are at stake now. It also is the low- and moderate-income families in this country.

I would like to make some specific comments. We appreciate the fact that at least you will insist on holding the line and have a housing bill approved that will at least maintain the status quo for this year, while you and the Senate and your committee will work on a more extensive and more comprehensive program for next year and for the years to come.

We would also like to tell you that really there's not a single approach possible. It will require the States and cities to do their job. It will require the public, private, and particularly the nonprofit sector to assist. But in the case of low- and moderate-income families and low-income families in particular, it will require moneys from the Federal Government. The Federal Government, after all, collects most of our taxes and the States and cities, especially in view of revenue sharing and other recent tax bill changes, simply will not have the resources to fill in what the Federal Government has left out.

We are also very concerned about the expiration of so many of the subsidized programs in the months and years to come. We know that the 101st Congress in particular, and the 102d, and the next administration, whoever it may be, will face enormous outlays because section 8, 236, 221(d)(3) programs are in effect expiring. Steps should be taken now and plans should be made to prevent this because if you superimpose those expenditures that will then come due on the ones that have to be made now you will have a tremendous amount of money to be made available and we really don't know where it can come from.

I would also like to say that we in the housing industry plead not guilty for the Federal budget deficit. The housing industry has taken the biggest cut of any program in this country in terms of percentages and HUD and the Secretary have not fought the way we thought they would for our programs.

The problem has arisen because of tax cuts, increase in military spending and increase in the national debt, but certainly the housing programs have not been responsible for this particular problem.

Senator CRANSTON. We hereby find you not guilty. [Laughter.]

Mr. SIMON. You must know that occasionally the press thinks we are the guilty party in this. The previous speakers have made many comments with which we agree upon and there is no point in repeating them.

I also want to tell you that we are very concerned about fair housing. We think fair housing is something that has not been carried out the way I think it was intended in this country. I think it has been neglected.

Let me tell you from personal experience, I am married to a black woman and we are having problems with fair housing and we would like you to do something about it both selfishly and for the people whom we represent, and I know you will. I don't think it needs all the strict guidelines and all the bureaucratic things that go with it, and to that extent I perhaps agree with you that some leeway should be given, but if something isn't done about fair housing, no matter what you build in this country, you will have a two-tier system and you will have, in effect, the haves and the have nots.

Thus, I would like to say, despite all the criticism, the public housing program has served this country well. It needs your support. It needs additional funding for social services security because without that you can't have a good public housing program.

So in conclusion, I want to say that you have a multifaceted approach. Some will cost money. Some can be done for less money, like Nehemiah. And some can be done by states and cities. But if you don't have a comprehensive program, you will have a real crisis much more severe than you have now within the next 2 or 3 years.

Thank you very much. I would be glad to answer any questions you may have.

[The complete prepared statement of John Simon follows:]

HUD has made efforts in this area, however, the capital improvement needs are escalating at a rapid rate.

Allow me to relate some data that better describes this problem. IREM research conducted in the fall of 1983 on SEC. 221(d)(3) BMIR and rent supplement indicate that 79.7 percent of the units had actual current needs for capital improvements. Management experience shows that a building 15 years or older begins to require major capital improvements. Other industry data for the same projects, aged 15 years between FY1979 and FY1987, indicates that 94 percent of the units have heating/air conditioning, plumbing/electrical, and roofing capital improvement needs. I would like to point out that while there may be other sources available for financing these capital improvements, they are not really viable alternatives for these subsidized projects.

First, the existing 241 Loan Program, which provides a second mortgage, has proved too burdensome and unworkable. Second, conventional financing is rarely available for these projects. Banks are very reluctant to lend because the property is unable to generate the earnings necessary to manage a market rate interest rate. Third, the existing flexible subsidy program is also unworkable for these projects because of the mechanics of the program and the constraints which are placed on the property owners. Finally, I have previously testified about the lack of adequate replacement reserves to fund the capital improvement needs of these projects.

In conclusion, there simply is not an adequate source of funding to preserve these subsidized units. Practically, owners cannot provide total funding of capital improvements without outside financial sources.

Consequently, the NATIONAL ASSOCIATION OF REALTORS® and the INSTITUTE OF REAL ESTATE MANAGEMENT support the concept of a capital improvement loan program; however, we cannot support the Multifamily Housing Preservation Loan provision as it has appeared in House housing authorization legislation since 1984, and as it is currently written in H.R. 4, the Housing and Community Development Act of 1987. We, therefore, respectfully submit the following comments to the Subcommittee on four specific provisions of this proposal contained in the House bill.

Realizing the limited financial resources of owners, the constraints placed on the rent increases in federally-assisted projects, and the limited cash flow to owners of these properties, we believe that the majority of the owners would find it difficult to provide a 20-percent downpayment on a capital improvement loan. Because of these constraints, there will be cases where owners will need 100 percent of the loan available from the federal government.

We would prefer the elimination of any owner downpayment requirement; however, a 10 percent downpayment on a capital improvement loan rather than the 20 percent requirement would be more reasonable. Also, the language giving HUD the ability to waive the downpayment requirement should be added.

We do not believe that the owner should be required to maintain the property as low- and moderate-income beyond the existing requirement specified by the regulatory agreement. The owner will be contributing to the capital improvement costs, and has made a significant investment in the property for current and future residents.

We would prefer that the language be altered so that the owner is only obligated to maintain the low- and moderate-income nature of the project until the term of the regulatory agreement. However, if this cannot be accomplished we recommend the following:

"If the capital improvement loan is applied for by a given owner/agent for a specific property, the low- and moderate-income character of the project would be maintained until the maturity date of the capital improvement loan."

For example, our concept of this loan would be a five to seven year (short-term) loan. Therefore in this example, the low- and moderate-income character of the project would be extended from five to seven years beyond the current term of the low- and moderate-income nature of the property.

We support the Secretary of HUD exercising close scrutiny over the project's financial resources and requiring that the owner make contributions, through replacement reserves and other sources, toward the provision of project capital improvements. However, in determining the interest rate and duration of the loan, we recommend that a careful examination be made of the projects ability to repay the loan. In minimizing the cost to the federal government, we recommend that those projects which can manage a higher interest rate are provided a loan of this nature. The interest rate should be less than 6 percent only in those cases where the majority of tenants would be affected by significant rent increases.

While we realize the critical need for the proposed legislation in preserving the supply of low- and moderate-income rental housing, we also want to express our concern about funding new government programs which may add to the ever-growing federal deficit. We strongly recommend that this Congress consider, when possible, redistributing existing monies within current or previous HUD appropriations and recaptures, to fund the initial capital improvement loan program appropriation. This action is greatly preferred over appropriating new program monies. A danger always exists that a new program, despite its initial modest beginnings, will over the years grow into a major budgeted program. We would caution against this kind of a development.

## Tenant Participation

After reviewing S. 2507, as reported by the Senate Banking Committee on May 23, 1986, the ASSOCIATION and IREM cannot support SEC. 223 of the bill, the provision on tenant participation in multifamily housing projects, as this is clearly an addition to the existing law as stated in the Housing and Community Development Amendments of 1978, Section 202 (a)(b) and (c).

The proposed section allows tenants in SEC. 202 housing to comment upon various areas in addition to the current law which allows tenants of SEC. 236 and 221 (d)(3) BMIR and rent supplement, or tenants of projects that have been sold subject to HUD-insured or HUD-held mortgages to provide comments.

It is proposed that these tenants be allowed to comment upon the transfer of physical assets, an application for capital improvement loan, and where the Secretary proposes to sell a mortgage securing a multifamily housing project. Conversely, existing law allows tenant input on owner's requests for rent increases, partial release of security, conversion of residential units to any other uses (including commercial use or use as a unit in condominium or cooperative) or major physical alteration. We believe that these provisions conflict with the principles that comprise the rights of private property ownership. Moreover, this could discourage any future investment in such housing, as investors would have to take into consideration the input of others before proceeding with decisions affecting the property.

It is important to note that the proposal for inclusion of "transfer of physical assets" was removed from the Housing Act of 1978 (via amendments passed in 1980,) and that language specifying, "where the Secretary deems it appropriate", was added at that time. These practical changes were the result of efforts to relieve project sponsorship of burdens that would be tied to the managerial process.

These restrictions on owners could create disincentives for the construction of new multifamily projects, and may eventually affect all forms of HUD property. Tenant input on management issues adds to costs and delays the management's effective and timely decision-making. Additionally, because mortgage and regulatory contracts do not include provisions for tenant participation, the implementation of this statute will have the retroactive effect of altering many existing contracts. In a time when tax reform changes and deteriorating physical conditions already have had a negative effect on the ownership of federally-assisted properties, we recommend that Congress not add disincentives to the ownership of federally assisted properties.

The following examples depict how tenant comments have delayed the decision-making process or have had an effect on multifamily property:

In California, tenants of a 575-unit 221(d)(3) BMIR project submitted letters on the 29th day of a required 30-day period to comment on a posted rent increase. Because HUD must review these letters, it pushed the procedure back another 30 days. The rent increase was given; however, because of the delay, the rent increase did not provide the operating income needed for the first 30 days as requested. Rent increases cannot be given retroactively.

In a 400-unit 221(d)(3) BMIR project, located in Virginia, the partners of a property requested a 30/unit rent increase to fund various property improvements that were needed. They had already put up $500,000 for these improvements. The rent increase was posted, and during the 30-day review period the owner claimed that the notice was removed anonymously from a bulletin board. Because it was not technically posted for 30 consecutive days, the rent increase was delayed another 30 days. This 30 day delay cost the project additional rent that was not recovered, because rents are not retroactive.

The phrase "where the Secretary deems appropriate" should be left as it currently exists in the legislation, and we would urge that Congress examine the impact of the 1978 Housing Act, as it relates to tenant participation, on the inventory before it changes the current tenant participation legislation.

### LEAD-BASED PAINT HAZARD ELIMINATION IN GOVERNMENT-ASSISTED/INSURED HOUSING

One final matter that the ASSOCIATION would like to provide some input to the Subcommittee concerns the issue of lead-based paint hazard elimination in government- assisted and government-insured housing. As the Subcommittee members are probably aware, the Lead-Based Paint Poisoning Prevention Act was amended in 1973 in order for HUD "to establish procedures to eliminate, as far as practicable, the hazards of lead-based paint poisoning".

Although a Senate housing bill has not yet been introduced, we believe it is important to raise this subject with this Subcommittee, for the housing bill under consideration in the House does contain lead-based paint provisions. These provisions would impose substantial costs to property owners and threaten the viability of federally-assisted multifamily housing programs and potentially, the FHA single-family mortgage insurance program.

While the ASSOCIATION opposes any change that substantially threatens the continued availability of these important programs to the public, we certainly recognize that lead poisoning can be a serious public health problem and that lead-based paint can contribute to this problem when ingested by children. To further address this problem, HUD promulgated, in January of this year, new regulations which establish strict program-specific requirements to eliminate immediate hazards associated with lead-based paint. These regulations will impose substantial new costs to property owners, yet maintain the practicability standard established under the Act. In light of this recent action by HUD, we believe it both inappropriate and unnecessary for Congress to take further action at this time.

## CONCLUSION

Mr. Chairman, I appreciate the opportunity to present the ASSOCIATION'S views on these key housing issues, and will be pleased to respond to any questions you or the Subcommittee may have.

NATIONAL HOUSING CONFERENCE, INC.

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Executive Director

## STATEMENT
## OF
## THE NATIONAL HOUSING CONFERENCE
## BEFORE THE
## SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
## COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
## UNITED STATES SENATE

February 19, 1987

Mr. Chairman and members of the Subcommittee, my name is John Simon. I am President of the National Housing Conference, the oldest national organization concerned with the provision of adequate housing and decent neighborhoods for all Americans.

We appreciate the opportunity to appear before the Subcommittee today and to present our recommendations for the Subcommittee to consider in its scheduled mark-up on March 3 of this year's housing authorization legislation. First, however, I should like to congratulate you, Mr. Chairman, and the other members of the Subcommittee for moving so promptly with this proposed legislation. The failure of the 99th Congress to enact any housing bill, other than meager, minimal extensions in conjunction with appropriations legislation, bordered on the scandalous.

The Federal Government's disregard over the past several years of the housing needs of the American people is now bearing its unfortunate fruit: the homelessness problem, with people on the street with no where to sleep, is ever more apparent; the lack of affordable and decent housing for the low income continues to grow ever worse; and, despite the lowest mortgage interest rates in 8 years, homeownership is still an elusive goal for too many Americans, especially young families.

There are many reasons for these problems, including, of course, an Administration which feels that--if we only leave it to the market, everyone will have a roof over their heads. That is probably true, as long as there is no concern as to whether that roof leaks or will fall in upon those it is covering, or as long as one has no concern whether there is any money left, after paying for that roof, for food, clothing, and the other essentials of life.

Congress, too, has contributed to this state of events by failing to maintain for housing the sense of priority and eminence that had been present for most of the three decades preceding this one. There has been no free-standing housing legislation passed by the Congress since 1980. Much of the legislation that has passed has been retrogressive and paltry. While a housing bill was once considered one of the major legislative issues of each session of each Congress, many Members of the Congress have served without ever having an opportunity to vote to send a housing bill to the President.

It is essential, therefore, that housing, and the essential human needs it serves, become once again a matter of high concern for the Congress and the American people. The steps that this Subcommittee is taking now are the first and essential ones in that effort.

Of course, what you have before you at this time is only the initial step. It is important that the existing program structure be maintained and that those present programs are able to continue to operate, unimpeded by frequent terminations of their authority, as would be accomplished by the proposed authorization legislation.

It is also important that the decision to maintain programs in an active state be first acted upon by the authorization committees and then presented to the Congress in an authorization bill. Too often of late, these important policy decisions have been left to the Budget and Appropriations Committees, where neither the expertise nor the procedures are present to give these decisions the attention they deserve. The Tax Committees also have taken on some of the role of proposing housing policy, a role they are totally unsuited to fulfill.

Enactment of authorizing legislation basically doing nothing more than maintaining the status quo, however, is insufficient. We need to start examining what the real state of housing is; why it got into that state; and devising means to restore dealing with the Nation's housing needs to a high level of priority.

Senator CRANSTON. Thank you.
Mr. Willis.

## STATEMENT OF KENT WILLIS, EXECUTIVE DIRECTOR, HOUSING OPPORTUNITIES MADE EQUAL, NATIONAL FAIR HOUSING COALITION, RICHMOND, VA

Mr. WILLIS. Mr. Chairman, members of the committee, my name is Kent Willis and I am the executive director of Housing Opportunities Made Equal [HOME], of Richmond, Virginia. I have with me Martin Sloan, the executive vice president of the National Committee Against Discrimination in Housing.

Today I speak on behalf of a coalition of private fair housing councils from across the country, including many in the State of California, and the 19 organizations which are members of the Midwest Fair Housing Alliance. We are the organizations which would be the recipients of the FHIP funds and that is the issue I would like to address today.

I would like to begin my testimony by saying that we firmly support the FHIP, and we are eager to work with Congress on this important matter. We do, however, have some objections, not about FHIP itself, but about certain aspects of the guidelines which we believe set the concept and application of fair housing testing back 15 years or more.

### OBJECTIONS TO THE GUIDELINES

We have two main objections to the guidelines. First, the guidelines as they now exist require that for each incident of discrimination two tests be conducted. Time and again the courts have accepted and ruled favorably in discrimination cases involving a single test.

The reasons for this are that a test conducted by a qualified, trained tester supplies sufficient evidence and, that in all likelihood, a second test will be detected by the real estate practitioner who is being tested, thereby exposing the tester and changing the behavior of the practitioner.

Requiring a second test, therefore, is counter to generally accepted testing techniques as defined by 20 years of experience on the part of fair housing councils and 15 years of court rulings. It is also unnecessary.

The second guideline which we find objectionable is a requirement that the tester, in replicating the original act of discrimination, see the same individual real estate practitioner.

Assume, for example, that a black home seeker visits a real estate firm, talks to agent A and is told by agent A that the apartment he wishes to rent is not yet available. A white tester may immediately thereafter visit the same real estate firm, ask for the same apartment but talk to agent B. If agent B tells the white tester that the apartment is available, then the real estate firm has discriminated. It does not matter that the individual agents are different. Clearly, the apartment was available; clearly it was denied to a black home seeker; and, clearly it was offered to a white home seeker.

Also objectionable is a requirement in the guidelines that a bona fide complainant must make an allegation of discrimination before testing is to be performed.

In 1982, the Supreme Court in *Havens* v. *Coleman,* a case initiated by a HOME in Richmond, unanimously ruled that both testers and fair housing councils may file complaints and may have standing to sue in court. This decision meant that fair housing councils could now test and file complaints without a bona fide allegation of discrimination from a home seeker.

The Supreme Court, in recognizing the subtlety of most forms of discrimination and the resulting fact that most home seekers do not usually know when they have been discriminated against, said that testing is the most effective way to determine what is actually happening in the marketplace.

With these rulings the Court opened the door for fair housing councils to test and file complaints without having to wait for bona fide allegations.

This restriction in the guidelines attempts to close a door just recently opened by the Supreme Court.

Before closing, I would like to address one final issue. This regards the proposal that the FHIP be a demonstration project with a sunset in 2 years.

If any activity is past the demonstration stage, it is testing. As I have indicated, it has been practiced and refined by private fair housing councils and the courts for many years now, and it has proven itself over and over again to be the most significant evidence-gathering tool in housing discrimination cases.

In addition, HUD itself has conducted two massive demonstration projects: The first, a nationwide testing program in the late 1970's done in conjunction with the National Committee Against Discrimination in Housing, and the second, a 1980 program termed the Fair Housing Demonstration Project, which was a multicity program designed to determine the efficacy of fair housing testing. Both programs were extremely successful.

I suggest, therefore, that FHIP be a permanent program.

I thank you for allowing me to speak on this important matter. If you have any questions, I would be glad to answer them. Thank you.

[The complete prepared statement of Kent Willis follows:]

Senator **Cranston**. Thank you very, very much.

Regarding the Fair Housing Initiative Program, I am encouraged by the willingness of all interested parties to find an acceptable resolution to the controversy that arose last year and I hope we can work that out—you can work that out.

I would like to first ask you to please let us know in writing within 1 week any changes that you would suggest in the bill of last year, revisions, deletions, anything else that you think would be appropriate since that's the basis of what we will be working on.

Next, are there any provisions in the administration's proposals that you agree with, that you feel we should give serious consideration to?

[No response.]

Senator **Cranston**. I hear none. What would be the consequences if we adopted the administration's proposals in toto?

Mr. **Simon**. I would like to say to you that I will tell you what—it's not a direct answer, but the Minister of Housing of the Netherlands recently visited some of us, both in New York where I also work and in the District of Columbia, and they have a severe squatter problem in the Netherlands. The property becomes vacant in any neighborhood, somebody moves in, and they have to call out the police, or the national guard, or whatever to get them out.

I think if this trend continues—the administration's program continues, the housing programs are further cut or eliminated or made more expensive, you will have that same kind of a squatter problem. It already exists in parts of the country but you will have it and you're going to have the kind of unrest you don't want to have, aside from all the social consequences.

I think that's exactly what's going to happen and what it's going to lead to.

By the way, the remedy then, 3, 4, or 5 years from now, will cost at least four times as much money as it would to do it now, done prudently with the kind of thought that both you and Senator D'Amato expressed for what you're going to do next year.

Senator **Cranston**. Thank you very much.

### NEHEMIAH PROGRAM

Senator **D'Amato**. Mr. Chairman, I'm wondering if those in the private sector might wish to comment on the proposed Nehemiah Program which passed in last year's bill and whether or not you support it or support it with modifications.

Mr. **Weigand**. Senator, we are not deeply familiar with your program. We do know that you started it in Brooklyn and, quite frankly, it sounds very interesting and maybe what we should do is actually go up there and visit that program because I understand that it is a success and we need to have that insight.

Mr. **Fischer**. Senator, we would support your program and I would be glad to personally visit the site in New York if we receive an invitation to come and look at it.

Senator **D'Amato**. Good. Maybe we can arrange for that, Mr. Chairman, and have a visit by some of our distinguished colleagues in the private sector and that might give it the kind of impetus to see it become a reality.

Thank you, Mr. Chairman.

Senator **Cranston**. Thank you.

Paul.

Senator **Sarbanes**. All I want to say, Mr. Chairman, is that if we can get this Nehemiah Program moving in Baltimore, they won't have quite as long a trip to make, although I know Senator D'Amato would like to have them in New York.

Gentlemen, thank you for your testimony. It's been very helpful. We appreciate it.

Senator **Cranston**. Jim, do you want to apply for some Nehemiahs in Tennessee?

Senator **Sasser**. Well, first, I'd like to see if Al would invite us up to look at them up there. I would like to check those out.

Mr. Chairman, I have just one question. I share the reservations that have been expressed here about the administration's voucher proposal and I note that Mr. Fischer stated, if I'm not mistaken, that the Congressional Research Service projects a housing shortage of 375,000 units between 1986 and 1990 just in rural areas.

Now I have very grave doubts that the administration's voucher proposal will meet this very critical need and I think this doubt is shared by members of this panel here today.

Mr. Fischer, could you or any other member of the panel explain how much of a housing shortfall we're likely to see under the administration's voucher proposal?

Mr. **Fischer**. Well, Senator Sasser, there's going to be a problem under the administration's budget. For instance, on buyers it would contribute to increased homeownership costs. It would also result in some buyers no longer eligible to qualify, and for the rental housing, funding for improvement of existing housing stock would be reduced or eliminated. So that would be adding to the problems. The budget also eliminates section 8 rehabilitation. It reduces section 8 existing certificates. It eliminates urban development action grants, housing development grants, and it reduces community development block grants, section 202 elderly housing, and rental rehabilitation grants.

Senator **Sasser**. So we're just going the wrong way, it appears to me——

Mr. **Fischer**. Yes, sir.

Senator **Sasser** [continuing]. As far as administration policy is concerned to deal with what is a very critical and crucial housing shortage in this country which is going to start accelerating and could get to the very serious situation that Mr. Simon just described in the Netherlands in very short order.

Gentlemen, just let me say that I've been at the forefront of efforts on the Senate Budget Committee to turn back many of the user fee proposals that the administration has advanced in the whole housing area. You can call it a user fee, but I'd call it a tax. That's what most of it is.

I think this has a very chilling effect on the ability of many low-income and medium-income individuals to buy adequate and, I might say, affordable housing. And I have a hunch that the members of this panel share my views on the so-called user fee proposition that we've seen the administration advance over the past 2 or 3 years now.

Mr. Chairman, I'm not going to belabor the point. Our time is running out here, so I have no more questions.

### VOUCHER PROGRAM

Mr. **Simon**. May I just make one comment on the vouchers, please?

Senator **Cranston**. Yes.

Mr. **Simon**. In New York City, with a 21-year waiting list for public housing and in Baltimore where there's a 10-year waiting list for public housing, the vouchers have a success rate of less than 50 percent because people get a voucher or, indeed, right now even a section 8 certificate and can't find housing.

In New York, by the way, 40 percent of the people that get a voucher pay over 50 percent of their income for rent even to get that housing, if they can get it.

So while the voucher may work where there is a great vacancy rate, in the cities that I mentioned—I could mention many more, but those I'm familiar with—vouchers just simply don't work unless there's a bigger supply of housing made available.

Mr. **Willis**. May I add one brief comment?

Senator **Cranston**. Yes.

Mr. **Willis**. Thank you. From the fair housing angle, if there is not an adequate supply of housing for people, there is also no fair housing. That is, the Voucher Program tends to restrict movement on the part of people of all races and when the housing market shrinks it affects low-income people mostly but it also affects minorities even more so. Thank you.

Senator **Cranston**. Thank you very much. I think that concludes our questioning of this panel. We thank you very much for your contributions and your constructive work and we look forward to getting your further thoughts.

Senator **Sasser**. Mr. Chairman, if I could just have a parting shot—I won't delay the panel—but just make this observation. Vouchers are not going to work where you don't have any housing available and there is not any housing available in the rural areas and in many of the urban areas.

Senator **Cranston**. Senator Sarbanes.

Senator **Sarbanes**. Mr. Chairman, I may have to leave to go to another meeting but I wanted to be sure to welcome Ms. Reckling here. I'm very pleased she is here. The organization which she represents, BUILD, Baltimoreans United for Leadership Development, is I think one of the preeminent grassroots organizations in the country and they have done some extremely effective work in Baltimore. We are very pleased to have her before us and I think you will appreciate the quality of BUILD's leadership after you hear her statement and have an opportunity to question here, but I'm glad that she's able to participate in this panel and speak to us on the issues that are before the Housing Subcommittee.

Senator **Cranston**. Thank you very much, Paul.

We welcome you to this committee. I would like to ask you to limit your oral presentations to 5 minutes so that we can complete our agenda and hear from all of you and have have time for questions. The full statements will go in the record. There's a green light that will start and it will go red in 5 minutes. Who's going to go first?

## STATEMENT OF ROBERT DODGE, RENTAL HOUSING ASSOCIATION, WASHINGTON, DC

Mr. DODGE. Mr. Chairman, we thank you for this opportunity to testify today.

The Rental Housing Association is a new organization representing the mostly small-scale investors in HUD's Rental Rehabilitation Program and the section 8 Certificate and Voucher Programs.

Rental rehabilitation grants under section 17 is new with many innovations. It seems a good time to start giving the Congress our assessment of how it is working.

First, I'd like to state my personal bias. For 15 years I was a career executive in HUD. It was my office that came up with the idea of rental rehabilitation, got it approved as a demonstration in the Carter administration, and sold it as a new program in the Reagan administration. I left HUD last year. My relation to the Rental Housing Association is that of a volunteer adviser.

### RENTAL REHABILITATION

Leaving aside my personal subjective view, the hard data on the program indicates that it's proceeding exceedingly well. Production is excellent. Over 70,000 units are under construction or completed in 12,000 different projects.

Rehabilitation costs average $9,600 per unit with a subsidy of $3,200 per unit. That subsidy of only $3,200 per unit is a most important factor of this program.

Low-income tenants are occupying 93 percent of the units that are rehabilitated and very low-income tenants are in 75 percent of the units. In fact, 52 percent of the tenants are families headed by a single female.

So clearly the very needy are benefiting, as was intended by Congress, despite the very, very low cost of the program.

Now, 70 percent of the lower income tenants have section 8 certificates or vouchers. That reflects the primary purpose of the program which is to increase the supply of decent units for certificate and voucher holders.

Many of the witnesses testifying before this subcommittee have noted the fact that certificates and vouchers alone do nothing to increase the supply of housing and that vouchers and certificates often cannot work because of a supply shortage.

Rental rehabilitation is one clear and successful answer which works in almost all communities—urban and rural.

Vouchers, the term, is often used as a buzz word signifying a policy really directed at taking resources away from Federal housing programs. Those, Mr. Chairman, who like yourself who do seriously want to help low-income housing, should not be turned away by that association of the term voucher.

We recommend that you take a good look at what can be done by creative use of tenant-based rental subsidies under any name—vouchers, certificates or whatever, when those subsidies are supported by shallow rehabilitation subsidies like rental rehabilitation.

A moment ago I said that 70 percent of rental rehabilitation lower income tenants have certificates or vouchers. That means that fully 30 percent of the low-income tenants have no rental assistance. They can afford the rehabilitated units with no additional subsidy with the only Federal expenditure being the one-time $3,200 rehabilitation subsidy.

Rental rehabilitation can, however, be tough on investors because it places more risk on investors than HUD programs which guarantee an income stream. We discuss that point more fully in our written statement.

Despite the added challenge to investors, the members of the Rental Housing Association support an even increased emphasis on the rental rehabilitation approach because it is recognized that the more cost effective the program, the more it deserves the support of the Congress and in our long-term interest that is better than having safer profitable programs which are too costly to be sustained.

We also include in our written statement several recommendations for inclusion in the proposed housing bill which would be useful but would not change the basic structure of the program.

Last year, Congress increased rental rehabilitation funds to the highest level yet—$200 million—despite the administration's recommendation to terminate the program.

The administration has now returned to a modest level of support of rental rehabilitation which at least indicates a developing bipartisan support.

$200 million was exactly the right level last year for a new program needing time for development of local management capacity. We recommend a modest increase this year to $250 million. That would still be a miniscule sum in the entire housing budget but that would produce 70,000 rehabilitated units for 45,000 certificate and voucher holders and make newly rehabilitated housing available for an additional 20,000 lower-income families who could afford the rental rehabilitation units with no additional rental subsidy other than the rehabilitation expenditure of approximately $3,200. That would be an excellent benefit for the money.

Thank you, Mr. Chairman, for allowing us to testify.

[The complete prepared statement of Robert Dodge follows:]

We, therefore, laud your intent, once this year's authorization legislation is out of the way, to undertake an extensive examination of the Nation's housing and community development needs and to advance next year major legislation dealing with those needs. You certainly have the support of the National Housing Conference in that effort and we stand ready to work with the Subcommittee in helping to develop the type of legislative program needed to reaffirm the Nation's commitment to that goal, set out first in the Housing Act of 1949, of a decent home and a suitable living environment for every American.

One of the crucial areas that needs to be addressed is how to maintain the present stock of low and moderate income housing. Much of that housing was originally assisted with a requirement that it be maintained for that purpose for a 20-year period. The 20-year periods have begun to expire on 221(d)(3) below-market interest rate projects and these numbers will increase over the next several years and remain high through 2005, as the controls expire on 236 and Section 8 projects. As a result, well over a million units could disappear from the stock of low and moderate income housing over the next 20 years.

We at NHC are very concerned about this possibility, as I am sure the Subcommittee is. To look into how to preserve this present stock, I have appointed a Task Force whose members reflect the broad range of NHC's membership, including representatives of nonprofit organizations, public housing authorities, builders, lenders, private owners of such housing, labor, and state and local governments. We will be glad to share the Task Force's recommendations with the Subcommittee later this year when, we presume, the Subcommittee will be digging into this and the other tough long-term issues confronting it. I have also requested our counsel, Carl Coan, to maintain a continuing liaison with the Subcommittee and its staff on the progress of the Task Force's deliberations.

I should like now to comment upon some of the particulars of S. 2507 of last year and of the Administration's housing proposals for this year as embodied in the Budget submission. S. 2507, in extending most of the programs of HUD, left to the Budget and Appropriations processes the decision as to the amount of funds or budget authority that would be authorized for each of those programs. Therefore, it is not possible to comment on program levels insofar as S. 2507 is concerned. We urge the Subcommittee, however, this year to include program level decisions within whatever legislation it approves. And, we further urge that those levels be at least as high as those covered in the FY 1986 and FY 1987 HUD Appropriations Acts. In several instances, such as for public housing production, they should be even higher.

Of course, you should reject the Administration's proposals to terminate public housing production; the 202 program; Section 8 Moderate Rehabilitation assistance and Certificates; the 312 Rehabilitation Loan Program; the Housing Development Grant Program; the Urban Development Action Grant Program; and other miscellaneous HUD activities. We also urge you to take such action as may be within your purview to prevent HUD from shifting funds for this fiscal year into next fiscal year, as proposed in its budget for public housing modernization and operating subsidies and for the 202 program. These so-called shifts are nothing more than the deferrals made ineffective by recent court decisions.

We urge that a strong public housing production program be supported and authorized. We need a housing supply, not pieces of paper such as vouchers, to assure that there are places in which the Nation's low income can live in decency and at a cost that can be afforded. As I have indicated, in the next 20 years we face a potentially devastating loss of housing dedicated to the use of the low and moderate income. Public housing produced over the next few years will be an important offset to that loss. For the same reasons, we should maintain the 202 and Section 8 Moderate Rehabilitation programs. They both add units dedicated over the years to housing the low and moderate income; something no certificate or voucher program can do.

Similarly, we don't, over the long term, serve the need to maintain a reasonable supply of low-income housing by willy nilly selling off our present public housing stock. While there is a certain surface appeal to enabling a present resident of public housing to become a homeowner, one must remember that the purpose of creating that housing was to have a place available for those who cannot afford housing in the market place, with the tenant moving on to other, market-rate housing when his or her income is sufficient and thus freeing up that unit for someone else in need. Each public housing unit will serve on the average many tenants over the course of its useful life. Selling off those units, however, will mean that there will be no means at all of providing housing assistance to the low income of the future. If public housing is to be sold, that should only be allowed if there is a unit-for-unit replacement.

Assisting the lower income to become homeowners generally should be left to the programs designed for that purpose. The 235 program in urban areas and the FmHA 502 program in rural areas have been the two key means of providing such assistance. Both of these would be terminated by the Administration; we urge that both be maintained and funded at significant levels.

We also support the effort to replicate the successful Nehemiah Program that has been developed in New York City. Where sufficient land is available, the Nehemiah Program should provide not only needed homeownership opportunities for those of lower and moderate income but also stability to moderate-income neighborhoods and even contribute to their reclamation in some instances. It seems wise to see if this program can work successfully elsewhere.

While NHC has over the years focused its major concerns and efforts on low-income housing, we have always recognized that any efforts in that direction will only be successful if the rest of the population is able to obtain decent housing at affordable prices. Therefore, we support the continuation of FHA as it is now constituted, without any arbitrary limits on who may obtain an FHA mortgage or the imposition of unnecessary fees and charges for the purpose of helping balance the budget or to push business in the direction of private mortgage insurance companies. On the same basis, we support continued strong secondary market operations through GNMA, FNMA, and FHLMC and urge the Subcommittee to resist the Administration's importuning for the imposition of unnecessary fees on those activities.

Decent housing cannot remain decent long without a decent neighborhood or in a community without economic opportunities. It has long been recognized that the environment in which one's home exists is almost as important as that home. Thus, housing and community development assistance activities have been hooked in tandem as a Federal concern for over 30 years now. We support the continuation of a strong CDBG program and the continuation of the Urban Development Action Grant program to provide the economic muscle needed by the Nation's distressed communities if they are to become decent places in which to live and work.

We, of course, recognize the serious problem that homelessness has become and support the Subcommittee's efforts last year, and presumably this year, to devise and fund approaches to provide shelters, and supportive services in connection with those shelters, for those who are now sleeping on steam grates and in building entry ways. While a resuscitation of the conventional means of providing housing assistance for low-income persons should ease somewhat the homelessness problem, especially for families, there is no question that there is a need for special programs in this area. We urge that, in its in-depth review to take place later this year, the Subcommittee focus a significant degree of attention on this subject, so as to try to devise some means of easing what has become a shame on our urban places.

Last but not least, I strongly stress our support for strengthening the Fair Housing Act and the efforts to bring about a true availability of housing, any place for anyone regardless of race, color, creed, sex, or handicap. With almost 19 years having passed since that Act became law, we still have a long way to go. The enforcement proposals that have been pending before the Judiciary Committee in the past several Congresses should be pushed and we urge that your Subcommittee, in which the Fair Housing Act originated, assist in that effort. We support the fair housing initiatives proposed in S. 2507 and urge that they be included in this year's legislation. However, we urge that the rigid guidelines for the carrying out of testing activities be eliminated from the legislation. The standards for such activities should be left to the more flexible approach possible under administrative regulations.

In closing, I should like to reiterate my commendation of the Chairman and the whole Subcommittee for moving forward to place housing, once again, high in the order of national priorities. We have a long way to go, but at least we are, hopefully, moving again.

### PREPARED STATEMENT OF KENT WILLIS, EXECUTIVE DIRECTOR, HOUSING OPPORTUNITIES MADE EQUAL, NATIONAL FAIR HOUSING COALITION, RICHMOND, VA

Mr. Chairman, member of the panel, my name is Kent Willis and I am the Executive Director of Housing Opportunities Made Equal (or HOME) of Richmond, Virginia. Today, I speck on behalf of a coalition of private fair housing councils from across the country, including many in the state of California.

I would like to begin my testimony by stating that we firmly support the FHIP program, and are eager to work with Congress on this important matter. We do, however, have some objections -- not about FHIP itself -- but about certain aspects of the guidelines which we believe set the concept and application of fair housing testing back 15 years or more.

We have twomain objections to the guidelines. First, the guidelines, as they ow exist, require that two tests be conducted before a complaint can be filed. Time and again the courts of this land have accepted and ruled favorable in discrimination cases involving a single test. The reasons for this are that a test conducted by a ualified, trained tester supplies sufficient evidence and that in all likelihood, a second test will be detected by the real estate practitioner who is being tested, thereby exposing the tester and changing the behavior of the practiotioner.

Requiring a second test is therefore counter to the generally accepted techniques as defined by 20 years of experience on the part of the fair housing councils and 15 years of court rulings.

The second guideline which we find objectionable is the requirement that the tester, in replicating the original act of discriminatio, see the same individual practioner. Assuime for example, that a black homeseeker visits a real estate firm, talks to agent A, and is told by Agent A. that the apartment he wishes to rent is ot yet available. A white tester may then visit the same real estate firm, ask for the same apartment but talk to Agent B. If Agent B tells the white tester that the apartment is available, the real estate firm has discriminated. It does not matter that the individual agents are different. Clearly the apartment was indeed available and clearly it was denied to a black homeseeker and offered to a white homeseeker.

Also objectionable is the requirement in the guidelines that a bona fide complainant must make an allegation of discrimination before testing is to be performed.

In 1982, the Supreme Court, in Havens v. Coleman, a case initiated by HOME in Richmond, unanimously ruled that both testers and fair housing councils may file complaints and may have standing to sue in court. This decision meant that fair housing councils could now test and file complaints without a bona fide allegation of discrimination from a homeseeker. The Supreme Couirt, in recognizing the subtlety of most forms of discrimination and the resulting fact that most homeseekers do not usually know when they have been discriminated against, said that testing is the most effective way to determine what is actually happening in the marketplace. With these rulings the court opened the door for fair housing councils to test and file complaints without having to wait for bona fide allegations.

This aspect of the guidelines attempts to close a door just recently opened by the Supreme Court.

Before closing, I would like to adress one final issue. This regards the proposal there be an understanding that the program is a demonstration project with a sunset in two years.

If any activity is past the demonstration stage, it is testing. As I have indicated, it has been practiced and refined by private fair housing councils and the courts for many years now, and it has proven itself over and over again to be the most significant evidence-gathering tool in discrimination cases. In addition, HUD itself has conducted two massive demonstration programs, the first, a nationwide testing program in the late 70s done in conjunction with the National Committee Against Discrimination in Housing, and the second, a program termed "the Fair Housing Demonstration Project" a multi-city project to determine the efficacy of fair housing testing. Both programs were very successful.

I therefore suggest that testing has proven itself. Perhaps the best way to handle FHIP would be to find it as an on-going program with an assessment of the guidelines in 2 years to determine the effectiveness of the program up to that point.

I thank you for allowing me to speak on this important matter.

Senator CRANSTON. Thank you very much.
Mr. Robbins.

## STATEMENT OF I.D. ROBBINS, GENERAL MANAGER, NEHEMIAH PLAN, EAST BROOKLYN CHURCHES, BROOKLYN, NY

Mr. ROBBINS. My name is I. D. Robbins. I am the builder-developer of the Nehemiah Housing Program which has rebuilt the large devastated area of Brooklyn in New York known as Brownsville. The National Nehemiah Ownership Opportunity Act is based on our experience.

I should tell you that in 1971 I proposed a Nehemiah-type Program in an article I wrote for the Sunday Times and subsequently for the Wall Street Journal. A U.S. Senator, who shall be nameless right now, called me, put it into the Congressional Record, and he said, "The time will come when this will pass."

It's now 16 years and I do hope that it will pass this year.

Most countries have found it necessary to subsidize housing. They use various forms. McGraw-Hill has a book out that shows that practically every country in the world is using some form of housing subsidy. The United States and our various cities and States are no different. Recently, Federal programs have provided for mortgage interest reduction—sections 235 and 236—and rent subsidy—section 8—or Voucher Programs. Both of these programs have ended and something newer and better is needed.

The second mortgage loan with lien provided in the Nehemiah bill, is a low-cost subsidy program, about one-third as costly as the previous interest subsidy program, and perhaps one-tenth as costly as previous section 8 which is open-ended and can't even be calculated. Out of more than 700 houses occupied by homeowners in Brooklyn, we have had no foreclosures—none whatever—and no failure to pay on time. We have had only one resale from the proceeds of which the $10,000 second mortgage loan was repaid to the city of New York.

### CREATION OF NEW NEIGHBORHOODS

The second major aspect of Nehemiah is the creation of healthy, new neighborhoods. It is clear from my experience in construction of homes that there is a critical mass of new homes required to achieve a sound neighborhood. The Nehemiah bill wisely discourages infills which quickly become victims of the deterioration around them.

The bill places the responsibility on the cities to provide low-cost land in significant amounts. This is much easier than most people think since the cities have acquired large amounts of real estate by reason of abandonment or nonpayment of taxes, usually in decaying neighborhoods. The sewers, the streets, the schools, the utilities are often in place and can be saved.

The bill encourages community participation, nonfederal contributions of land, tax abatement, construction financing and waivers of fees. It encourages the redevelopment of blighted areas, the use of advanced construction methods and the employment of local residents. These are all ideals that I'm sure we share. These are all improvements on previous housing measures which failed to call for this type of thing.

In my opinion, bolstered by our experience in Brownsville, the new act's approach will be the greatest force for the fulfillment of the American dream of home ownership since the post-war VA no-downpayment 4-percent loan. At that time, I think you should know that my companies built 6,000 single-family homes under VA loans.

In Brooklyn, we operate a program with no selling effort whatever. We could easily sell 100,000 homes. And 40 percent of our applicants come out of public housing or subsidized section 8's. If we had ever announced that new applications would be available, we would need at least six policemen each day to handle the crowds. Every day we are forced to refuse 100 or more requests for applications.

By applying the Nehemiah principles to the amount of the contingent liability on the Section 8 Program, we could produce—hold onto your hats—30 million houses in the United States. Secretary Pierce told me 3 years ago that the contingent liability was around $280 billion. It's probably more today. And it's open-ended. And for $10,000 a house, which is what it costs in New York, we could build an awful lot of houses. We could take care of a very large American population in these houses.

This is a very conservative, responsible program that works. It's not amateur sociology and economics. It's not pie in the sky. You'll like it. Buy it. Try it. It works.

Thank you, and I will answer your questions.

[The complete prepared statement of I.D. Robbins follows:]

Senator CRANSTON. Thank you very much.

Reverend Spengler.

Mr. ROBBINS. Excuse me. I should tell you a word about Reverend Spengler. Reverend Spengler is the pastor of Our Lady of Mercy Church in Brownsville. When I started this program, he offered me an office in the sacristy of his church and it was a pretty dour place and now I think you should know the church has been rebuilt, refurbished, it's beautiful, and all around it there are hundreds of home owners. So he has had practical experience of what it can do for one of the most devastated neighborhoods in America.

Father Spengler, I'm sorry. I hope I did you justice. I think you deserve it.

## STATEMENT OF JAMES SPENGLER, PASTOR, OUR LADY OF MERCY CHURCH, BROOKLYN, NY

Father SPENGLER. Thank you. My name is Father James Spengler. I am proud to serve as a priest in the Roman Catholic Diocese of Brooklyn. My bishop is Francis J. Mugavero, who as much as any religious leader in America today, has demonstrated how to translate the Bishops' letter on the economy into flesh and blood reality.

I am the pastor of Our Lady of Mercy Church in the Brownsville section of Brooklyn. When I first arrived at Our Lady of Mercy 9 years ago, I would look out the windows of my office and I would see ruins, block upon block of abandoned and burned-out buildings, lots loaded with rubble and deserted cars, a landscape that summoned up biblical images of devastation and death.

I remember one morning looking across the street at an abandoned building and seeing a man tossing bags into the open windows, bag after bag, and I was wondering what he was doing. I went across the street and I asked him. He said he was feeding the rats. So he was using rat poisoning only a few steps from my church.

Nine years ago, New York City was in a fiscal crisis so there seemed to be no money to rebuild the ruins I saw. Nine years ago, Washington and the Nation were beginning a creativity crisis. The poverty programs were expiring and some in Washington, through old and failing solutions at our urban problems. Others invented new labels and new concepts—the underclass, the trickle-down theory, benign neglect—and they suggested that nothing could or should be done for our cities.

In East Brooklyn, we did several things. First, working with the Industrial Areas Foundation, which is a national organizing group with efforts in Maryland, Texas, Southern California, and New Jersey, we built a strong and church-based financially self-sufficient power organization which is called the East Brooklyn Churches.

Second, several years later, we decided as one of our strategies to attempt to rebuild the ruins of our community with what came to be called the Nehemiah homes.

### DECISION TO REBUILD

Third, having made that decision to rebuild, we went about the important business of finding allies. These allies proved to be Mr. Robbins, who is here with me today; allies like Bishop Mugavero; the Long Island Episcopal Bishop Witcher; Missouri Synod Lutheran leader Westcot. We raised our own no-interest construction fund of $8 million. One of the local churches put in $100,000, gathering $1,000 from each member as a loan. That was a significant contribution by just one small church in our neighborhood.

Finally, we went to the government—New York City, New York State, and now to the Federal Government. We've come to you with a decision, with a clear and simple and inexpensive way for government to help us.

From the city we asked for a $10,000 no-interest second mortgage with lien, the part of our plan this Senate bill seeks to replicate.

From New York State we asked for below-market mortgage money.

In all of our years of organizing and building, we have never begged anyone for anything.

I now look out of my office windows and see hundreds of new Nehemiah homes. I know how much they mean to the people who now live in them. I have blessed many of these homes and I know many of the people who are residents and I know how much this has meant to me.

With all due respect, those of us involved in the East Brooklyn Churches expect this committee and this Congress to pass and appropriate funds for this bill.

In this anniversary year of our Constitution, we, the people, have spoken, planned, battled, and built. We have shown the way in a deserted corner of America. We know that you will follow.

Senator, I noticed that one of our speakers is not listed here on this table. I was under the impression that one of the Nehemiah homeowners could come with us and offer a brief statement. I have asked Mrs. Patello to come with us. She took a day off, which is today, to come. She's not feeling well. She's here. She has a brief statement if you would allow her to speak.

Senator CRANSTON. Sure. We, of course, welcome you and we would love to hear from you.

## STATEMENT OF ISABELLE PATELLO, HOMEOWNER, NEHEMIAH HOMES, EAST BROOKLYN, NY

Mrs. PATELLO. Good afternoon. I have to apologize for Mother Nature for giving me a gift of laryngitis this morning.

My name is Isabelle Patello and I now live in a Nehemiah home at 400 Christopher Avenue, Brooklyn.

Three years ago, our family was like a lot of families. We were living in city housing, 380 Williams Avenue in Brooklyn, making a respectable income but, because of escalating cost of housing, unable to take the next step that millions of other Americans have been able to take—that important step of buying and owning a home of our own.

For a moment, I would like to speak for those Americans, those other millions. They have worked hard all of their lives. They have

UNITED STATES SENATE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
HEARINGS ON HOUSING AND COMMUNITY DEVELOPMENT
AUTHORIZATION OF 1987

FEBRUARY 19, 1987

# STATEMENT OF
# RENTAL HOUSING ASSOCIATION

## INTRODUCTION

The Rental Housing Association (RHA) is a new organization representing the, mostly small scale, real estate investors who own and manage rental property. The vast majority of the membership participate in the Rental Rehab Program and the Section 8 certificate and voucher programs of the Department of Housing and Urban Development.

The Rental Rehab Program is itself relatively new, and the RHA welcomes this opportunity to share its member's experience with Rental Rehab and the many innovations it has introduced into government sponsored low-income housing.

The RHA believes that the Rental Rehab Program is sound; it is working well, and should be continued without major change. The Rental Rehab Program deserves, and is receiving, bi-partisan support. Last year the Congress increased program funding to its highest level, $200 million, despite an Administration recommendation to terminate. This year, even the Administration is returning to a modest level of support with a funding recommendation of $75 million.

## RENTAL REHAB PROGRAM PERFORMANCE

- Production is excellent. Over 70,000 units are under construction or completed in 12,000 projects. More than 50,000 additional units will be started in FY 1987

- Costs are low with good leveraging. Per unit subsidy is only $3,200 with average rehabilitation costs of $9,600 per unit. Two dollars of other funds, mostly private, are leveraged for each Rental Rehab dollar invested.

- Benefit is high for lower income families. 93 percent of the units are occupied by lower income families (compared to a program requirement of 70 percent) and 75 percent are very low income. Most of the lower income tenants (70 percent) have received certificates or vouchers. The remaining 30 percent can afford the rehabilitated unit with no Section 8 assistance.

- The neediest are being helped. 52 percent of the tenants are families headed by a single female.

- Small buildings and small scale investors are included. The average size Rental Rehab project is smaller than 6 units.

Rental Rehab uses a novel strategy. Shallow subsidies are targeted to rehabilitate modest rental units for market rate rental in lower income neighborhoods where they can be afforded by Section 8 certificate and voucher tenants as well as some unassisted households. The assisted tenants can, if they wish, move with their certificates and vouchers. That concept is radical for subsidized housing - but, it works!

## RENTAL REHAB FROM THE INVESTOR'S PERSPECTIVE

Our organization, RHA, represents one of the key actors in the Rental Rehab process, the investors who put their money at risk to rehabilitate rental property in lower income neighborhoods. How does the Rental Rehab Program look from the investor's perspective?

Although many of our members would prefer the old style of HUD programs (like Section 8 Substantial and Moderate Rehab) which guarantee the investor a high income, we recognize that those older programs are very expensive compared with Rental Rehab. Because we believe that government support for low income housing is necessary and important, we recommend that cost-effective programs like Rental Rehab be emphasized - that is the kind of program we need in these times of tight budgets.

Rental Rehab puts tough pressure on the investor. With a Section 8 Moderate Rehab project, for example, if the unit becomes undesirable for the tenants, the subsidized families must stay or lose all assistance. The property owner still gets his income and profit. If the same thing happens with a Rental Rehab unit, the tenant will simply take the certificate or voucher and move to a different apartment.

Giving the tenant that freedom is good for the tenant. It helps to assure that the tenant and the public are getting full value for the taxpayer's money spent on rent subsidies. It does, however, force owners to make hard-nosed financial decisions and take real risks!

RHA members recognize that forcing owners to have their management disciplined by market forces and requiring developers to make tough judgments on feasibility in the free market help to achieve the good cost-benefit results the program is showing for the taxpayer. We will accept the hard demands Rental Rehab places on project investors because we believe that a sound, shallow subsidy program deserves Congressional support and is more in our long-term interest than more profitable, but high cost housing programs.

The thousands of property owners who are willing to undertake the risks and headaches of investing real money in Rental Rehab projects in lower income neighborhoods speak eloquently to the point that the concept does work for investors despite the tough role they have to play.

## RECOMMENDATIONS FOR RENTAL REHAB

We have four recommendations relating to Rental Rehab for the housing authorization legislation you are now considering:

1. Rental Rehabilitation Funding. The $200 million appropriated last year was just about right for a new program still being worked out in the communities. A modest increase to $250 million would be appropriate for FY 1988. Many, many lower income tenants still live in substandard units crying for attention.

While $250 million is a small amount of the annual housing budget, it would rehabilitate about 70,000 units. That would be a major part of the housing production to be achieved by all housing programs in FY 1988.

About 45,000 of those 70,000 units would be occupied by certificate or voucher holders, but, another 20,000 units would be lived in by additional lower income families without any further housing subsidy and who would otherwise be living in substandard housing.

2. Technical assistance to participating governments. The flexibility given to local and state government is an important asset of the Rental Rehabilitation Program. The program places great demands on local staff, and, staff performance across the country varies tremendously. Some local organizations are excellent, but we hear many horror stories from local investors of frustration, waste, and unnecessary financial cost created by too many local agencies.

To carry out the Rental Rehab Program, local staff must have expertise and confidence and be able to operate with flexibility in a dynamic and confusing real estate market. That is difficult for staff who often have been trained to fill out forms and obey regulations!

The Federal government has a responsibility to make the needed skills and knowledge available to local and state staff. Technical assistance can be a cost-effective investment and it is necessary for the Rental Rehab Program to be fully successful

We are pleased that the Administration is recommending $1 million for Rental Rehab technical assistance in FY 1988. We would recommend about $1.5 million annually.

Federal technical assistance should emphasize gathering information from the experience of program "customers" - tenants, investors and contractors. That information can then be used to convince and assist local staff to make their programs streamlined, simple, and responsive.

Streamlined programs mean lower subsidies. If property owners are scared off by paperwork, local rules and bureaucratic attitudes, greater subsidies will be needed to gain participation.

3. Per unit subsidy limits. The Administration is making another forward looking proposal by recommending a small increase in the $5,000 per unit limit on Rental Rehab subsidies. (They recommend a $7,000 per unit limit for apartments of 3 or more bedrooms.)

Numeric national limits are inherently rigid and reduce the ability of local officials to make reasoned judgments suitable to their communities. $5,000 per unit is, for example, a relatively large percent of development costs in some areas with low real estate values, but is a very small percent in other markets.

With no rigid limits in the Rental Rehab Demonstration carried out by HUD prior to implementing a national program, the average per unit lost was still a very low $3,500. The requirement that Rental Rehab funds can only be used for 50 percent of the rehabilitation costs acts to limit the rehabilitation subsidy amount without any dollar per unit limit.

The Rental Rehab Program would continue to have low costs with no per unit subsidy limit. However, we understand that the Congress prefers the cost control that statutory limits imply. If there must be limits, program performance would be aided by the greater flexibility of raising limits to $7,500 per unit with $8,500 per unit for apartments of three or more bedrooms.

4. Vouchers and Certificates with Rental Rehab. Coordination of rent subsidies from the Section 8 Existing Housing Program and rehabilitation subsidies from Rental Rehab is the essence of a cost-effective tenant assistance and rental unit rehabilitation program. This can be a difficult problem for HUD and local agencies.

On the one hand, it is not wise to hold certificates and vouchers away from needy families just so they are available when needed for Rental Rehab. On the other hand, no investor or city can undertake a rehabilitation project involving low income tenants without being absolutely assured that rental subsidies will be available at the exact moment needed to keep tenants from being displaced by higher rents after rehabilitation.

A minor statutory clarification could give local officials much better ability to manage efficiently without tying up certificates and vouchers unnecessarily.

We recommend that the Section 8 Existing Housing Program be amended to make it clear that any voucher or certificate can be targeted to a lower income tenant who would otherwise be displaced by a Rental Rehab project, including displacement by increased rent after rehabilitation, and that local housing authorities have an affirmative priority to use certificates and vouchers to that end.

Under current HUD interpretations, most certificates and vouchers can only go to tenants who actually leave their apartments. That forces unnecessary displacement or induces local officials to hold the "special" certificates and vouchers (allocated with Rental Rehab) out of use so they will be available to avoid Rental Rehab displacement. The recommended amendment would give greater flexibility and thus permit more efficient local management.

## SUMMARY

Rental Rehab used in conjunction with the tenant based rent subsidies of certificates and voucher is an effective and inexpensive approach to low income housing in which investors will participate. Use of the concept should be continued, supported, studied, and considered for extension to other housing needs.

## Testimony of I. D. Robbins before Senate Committee, Washington, D.C.
## February 19, 1987

My name is I. D. Robbins. I am the builder-developer of the Nehemiah housing program which has rebuilt the large devastated area of Brooklyn, New York known as Brownsville. The National Nehemiah Ownership Opportunity Act is based on our experience.

Most countries have found it necessary to subsidize housing, using various forms. The United States and our cities and states are no different. Recently, Federal programs have provided for mortgage interest reduction (Sections 235 and 236) and rent subsidy (Section 8). Both of these programs have ended, and something newer and better is needed. The second mortgage loan with lien provided in the Nehemiah bill, is a low-cost subsidy program, about 1/3 as costly as previous interest subsidy programs, and perhaps 1/10 as costly as Section 8 which is open ended and can't even be calculated. Out of more than 700 houses occupied by homeowners, we had no foreclosures and only one re-sale from the proceeds of which the $10,000 second mortgage loan was repaid.

The second major aspect of Nehemiah is the creation of healthy, new neighborhoods. It is clear, from my experience in construction of homes, that there is a critical mass of new homes required to achieve a sound neighborhood. The Nehemiah bill wisely discourages "infills" which quickly become victims of the deterioration around them.

The bill places the responsibility on the cities to provide low-cost land in significant amounts. This is much easier than most people think since the cities have acquired large amounts of real estate by reason of abandonment or non-payment of taxes, usually in decaying neighborhoods. Sewers, streets, schools, utilities are often in place and can be saved.

The bill encourages community participation, non-federal contributions of land, tax abatement, construction financing and waivers of fees. It encourages the redevelopment of blighted areas, the use of advanced construction methods and the employment of local residents. These are all improvements on previous housing measures.

In my opinion, bolstered by our experience in Brownsville, the new act's approach will be the greatest force for the fulfillment of the American dream of home ownership since the postwar VA no down-payment, 4% loan. In Brooklyn, we operate a program with no selling effort whatever, but could easily sell at least 100,000 homes. Forty percent of our applicants come out of public housing or subsidized Section 8's. If we had ever announced that new applications would be available, we would need a riot squad. Once word got out that we had a new model home and it took six policemen to handle the crowds that started lining up at 6 AM. Every day we are forced to refuse 100 or more requests for applications.

By applying the Nehemiah principles to the contingent liability on the Section 8 program, we could produce 30 million affordable homes nationwide with a fair chance of getting the money back. This is a very conservative, responsible program that works, not amateur sociology and economics, not pie in the sky. Buy it; try it.

longed and still long to be owners of a small piece of this land. They want to build or rebuild their communities, whether in Baltimore or Brooklyn, in San Antonio or East Los Angeles, in Milwaukee or Madison. In short, they want to enter the mainstream of American economic life but find that the hope available to most other Americans, the beloved hope of home ownership, is not available to them.

But millions of Americans should benefit from this plan, not just a few thousand. As a Nehemiah homeowner, as an EBC member, I urge you to act to make the Nehemiah strategy and the home ownership dream a reality for most Americans.

Our next speaker is Carol Reckling, of our sister organization, BUILD, located in Baltimore.

Senator **Sarbanes** [presiding]. Thank you very much. It was a very helpful statement, and we are pleased that you took the time and trouble to come, despite the laryngitis.

Ms. **Patello**. Thank you.

Senator **Sarbanes**. Ms. Reckling.

## STATEMENT OF CAROL RECKLING, PRESIDENT, BALTIMOREANS UNITED IN LEADERSHIP DEVELOPMENT [BUILD], BALTIMORE, MD

Ms. **Reckling**. Thank you. Good afternoon. It is good to see you again, Senator Sarbanes, members of the committee.

The BUILD organization would like to thank you for this opportunity to speak with you about the National Nehemiah Opportunity Act.

I am Carol Reckling. I am president of BUILD.

Mark Twain once said that the difference between the right word and the almost right word is the difference between lightning and a lightning bug. I hope that my remarks will lean heavily toward the former today.

BUILD, which is Baltimoreans United in Leadership Development, is a metropolitan organization made up of 47 congregations, three unions, and an association of public housing tenants. We are part of the Industrial Areas Foundation Network, which through East Brooklyn Churches, our sister organization, and the work of Mr. I.D. Robbins, birthed the Nehemiah plan upon which this legislation is based.

### BRINGING NEW LIFE TO OLD CONCEPTS

Senators, the Nehemiah concept is bringing new life to old truths. About 100 years ago, John Stuart Mill wrote, and I am paraphrasing, in the conclusion of his classic work "On Liberty":

> The worth of the state in the long run is the worth of the individuals composing it. A state which dwarfs its people will find that with small people no great things will be accomplished. And that the perfection of machinery to which the state has sacrificed everthing will in the end avail it nothing.

Our Government dwarfs its people, not so much by its size, as by what it does not do to strengthen and deepen its people's ability to become the makers of their own history. This issue goes beyond party affiliation, whether Democrat or Republican. The question goes to the very heart of what kind of citizens we wish to develop in our republic.

This Nehemiah housing bill is in the tradition of the Homestead Act and the legislation which gave birth to the FHA and VA programs—a tradition which sought to empower generations of families to create whole new communities. This legislation will assist black families, white families, Hispanic families, and Asian familes to build communities where they may grow together, raise their families together and participate as citizens in the democratic tradition of hope and struggle that our parents and grandparents had a hand in creating.

We in BUILD have developed what we call our municipal agenda. An important element of our agenda is the opportunity for at least 1,000 families per year to become first-time homeowners.

Senators, in Baltimore, 42,000 of our people are on waiting lists for public housing. There are nearly 6,000 vacant houses and many, many homeless citizens walk our streets with no place to go.

BUILD is ready to begin. We are ready to organize families, to raise money, clear land and renew old shells of buildings, but we are here to say that we need the federal partner. And Senators, when this legislation passes, we will hit the ground running in Baltimore.

Let us together make a way where no way exists. Let us not miss this opportunity. Let your actions not be that of almost right actions. Instead let your actions bring forth the lightning of democratic opportunity for all of our people and not lightning bugs.

Thank you.

[The complete prepared statement of Carol Reckling follows:]

Senator **Sarbanes**. Thank you very much for a very strong and powerful statement.

First of all, Mr. Robbins, I don't want this opportunity to go by without commending you for the effective work you have done there, and there is nothing that helps move the possibility of a program along more than being able to point to a successful example of it, and you have provided that, you and Reverend Spengler and the other churches in the area and the public officials up there.

Let me ask this question of anyone who wants to respond to it.

Last year when Senator D'Amato and I were working on the Nehemiah Program, one of the differences that developed in the committee, and in fact, we had a division in the committee over it, and something of a fight, they wanted to lower the people who could qualify to participate in it. We disagreed with that, but the argument was being made that they wanted to target it even more to the very, very low-income people, and therefore, instead of qualifying, I think, at 115 percent of median income, it would be taken down drastically from that.

### NEIGHBORHOOD CONCEPT

We took the position, Senator D'Amato and I and others, that you were really talking about neighborhoods here. You had to think in a neighborhood concept, that you needed a mix, that you had to be sure that, you know, that people could carry the responsibility, but that if you had a mix of income, which is probably what would develop with a little broader range, you could sustain a stronger neighborhood.

I wonder if you could address that issue, because it is liable to arise again this year.

Mr. **Robbins**. I am very pleased to, because I think the position that you and Senator D'Amato have taken is the correct one. I think you should know that the present bill, the present proposal, would take the income up in New York to about $29,000, about 15 percent over the median income. In other cities, it might be more or less. But if you then say you want to lower that, let's say you want to take it to 10 percent below the median income, the effect of that will be to freeze out a very significant group that has to be included.

As matters stand today, and I speak now as a builder— I mean, as a man who works with costs, it is impossible to build a house without subsidy in the United States for any family earning less than $40,000.

Now if you are going to say that we are not going to take anybody earning over $25,000, you are leaving a very serious notch in there, a $15,000 notch, where those people, who represent hundreds of thousands of families in the greatest need, cannot be taken care of.

The second thing is—you have that large group left in no man's land. I don't think you should create low-income islands either. We have had enough low-income islands. That is what public housing did for us. I remember going back to when the first housing was built in New York. It was the Fort Green houses in 1936 or 1937. We put 4,000 of the poorest people in New York in there, and it turned out to be a tremendous problem, like the St. Louis experience.

### RESPONSIBLE MIX IN THE COMMUNITY

Poor people have problems. If you put a lot of poor people in one place, believe me, you've got a big problem. And what we tried to do is to get some kind of responsible mix into the community, so we get some leadership in the community, so we have some role models in the community. The people with jobs, people who have stable family life, this is what we are looking for.

I don't want to freeze anyone out, and I don't think you do either—don't misunderstand me. I also think that most buyers—and this is something people overlook—most buyers are two-income families. These are not rich people. We haven't got anybody with a lot of money moving into Brownsville. This is a man who works as a mechanic of some sort, and his wife is a nurse's aide and between the two of them, they make $24,000. They are not making a lot of money.

Senator SARBANES. Can I interrupt? Let me interrupt you right there, because I want to read from the additional views, from those who were in opposition to us on this program last year.

They say,

> Indeed, this program seems perfectly suited for young, upwardly mobile professionals in urban areas, who are willing to relocate in a previously blighted area on the rebound. The possibility that well-off individuals will end up displacing less fortunate families is quite real.

Would you address that comment, please?

Mr. ROBBINS. Well, we haven't had that experience. That is all I can tell you. We know where the people come from. They come from 11212, which is the postal zone for Brownsville, or they come from 11207, which is the postal zone for East New York. They are not coming from way off. We are taking the people out of public houses, on the periphery of the site we are building, and they are moving into our houses. That is literally what is happening.

Now I don't think there is anything wrong with selling somebody who makes $24,000, who happens to be an upwardly mobile white collar person, why shouldn't he be allowed to buy it? If he is upwardly mobile, he probably won't do it. But I think this is something you should not freeze him out of. We just haven't had that experience. I don't think that is likely to be the experience.

Senator SARBANES. Ms. Reckling, did you want to address that?

Ms. RECKLING. Yes; I can point to areas in Baltimore, where we have had just the opposite experience. And what BUILD is interested in, our position has been all along. In the creation of neighborhood and the empowerment of people, you need to maintain a mix of people in a neighborhood. Our experience has been, for example, in the Cherry Hill section of Baltimore, that people want to remain in their neighborhood, and just because you are able to get a better-paying job which, as Mr. Robbins has stated, has not made you a millionaire, why should you have to leave the community which you have put so many years into building, that your families have built, in fact?

People do not want to leave their neighborhoods. When 85 homes, new homes, were built in Cherry Hill for the first time, those homes were sold in a matter of 1 week, and there immediately was a waiting list of other people who did not want to leave their area. I constantly hear of people who are forced to move from their home and their neighborhood.

Senator SARBANES. Reverend Spengler.

### COMMUNITY INVOLVEMENT

Reverend. SPENGLER. Mr. Robbins is correct. That has not happened in Brownsville. The overwhelming majority are black and Hispanic families. One of the reasons I think that it will not happen in other communities, is that of the community participation, these homes, people will be educated in their churches, in their organizations, in those communities that these homes are being built. And the people will have a chance at them. They will be qualified to buy the homes in those communities, black and Hispanic. They will be alerted to take every opportunity to buy a home. And I think though some might come from other communities and want to be involved in this, and though we do it on a first-come, first-served basis, most people in our community have taken advantage of it, like Mrs. Patello, who heard about this home in her church and went to the office and applied almost immediately.

So I think we will first be in the community participation part of it. This will prevent a Yuppie takeover of the Nehemiah homes.

Senator SARBANES. Well, I ought to point out, just so the record is complete, that while the way we have written it, you could participate in the program if you had 115 percent of median, that the project had to be located in a census tract, in which the median income is 80 percent of the area median. So right away, you are in a physical area that is only at 80 percent of median for the area, and beyond that, that it must be in a neighborhood with severe physical and economic blight.

So it was structured to guard against the kind of thing people are worried about but still leave a little bit of mobility to maintain this neighborhood, provide community leaders, not force people to leave their neighborhood simply because they have gotten a better job.

I think it is self-defeating to urge people to move up and then as soon as they do that, they have to leave the neighorhood, they have to depart.

Mr. ROBBINS. No, they would get in, and I hope they make more money after they come in. Why shouldn't they? They own a home. They've stabilized their lives. They sent their children to a good school. They've improved the neighborhood. Why shouldn't they make more money? But by this time, it is now, when they need a home, that they can't get it. That is the group we are trying to take care of. It is a very big group. There are 650,000 of them in New York City. We could sell—I told you this. We can sell 100,000 of them. It is hard to believe. When you realize you've got to have $5,000 in the bank in order to make a down payment, don't seem to have any trouble getting it. Don't seem to have any trouble.

I think I ought to say something—something very nice was said by several of the Senators, and I would like to address Senator D'Amato. We have had—the State Department brings ambassadors to see us. We get mayors from cities all over the United States. And the Members of the House of Representatives have held hearings right in the community—as a matter of fact, in Father Spengler's church.

We would be very honored if this committee would come to see what we are doing there. It would be a wonderful thing. And I would appreciate it if you would help us on that.

Senator SARBANES. We will take that under advisement.

Let me tell you, though, that if the committee can't actually get there, the next best thing you have is Senator D'Amato here describing what is taking place. He has done a very effective job of that, and with that, I will turn to Senator D'Amato, if he has any questions.

Senator D'AMATO. Thank you, Mr. Chairman.

Let me say at the outset, I think that both Baltimore and Brooklyn can be very proud of our representatives today and the picture, as they have portrayed for this committee and hopefully some of our colleagues and their staff will get a better view of what this Nehemiah Program has been and what, hopefully, it can be for the Nation, because we desperately need to provide, I believe, hope and opportunity for the millions of Americans who do not have that today. Homeownership is not within their realm of comprehension. There is no way that they can think about the kind of down payment and the kind of monthly expenses, unless there are the innovative techniques that Nehemiah has applied in Brooklyn and can and should be utilized wherever the need exists and the opportunity should be created to do that.

I don't want to detract from the testimony given by all of our witnesses. And it is good to see Mr. Dodge with us today. He has been rather innovative in the area of rehabilitation, and I think that is a very important ingredient also, Mr. Chairman. It has been terribly neglected. I think so many of our citizens wonder why, when we see structures that can and should be rehabilitated, lying there dormant, vacant, without the foresight to move in and make these livable once again for our citizenry.

I would hope, Mr. Chairman, and I know that Senator Sarbanes shares and was very forceful in his defense of what we think are most reasonable income limitations, to restrict, by the way, a young professional from coming into a neighborhood, would be a terrible calamity. We need all we can to come into the poor neighborhoods. And if those successful sons and daughters, whose parents once had the opportunity to sink their roots in our great urban centers, seek to come back and to sow their seeds there, why not? And of course it was used, I think, as a rather specious argument to take the highest cost city, add the 15 percent and say, well, somebody could be making $39,000 and qualify.

Why, if they are making $39,000, the one or two who might, who want to come into that inner-core city, take that 1 percent or one-half of 1 percent and let them sow their seeds with the rest, most of whom are coming from public housing and who need that assistance and opportunity.

Mr. Robbins, we owe you a great deal of gratitude. If there is anyone who has perspicacity, why you have certainly over the years shown that. And you must have a great feeling of pride, when you see legislation that I believe will come into law and see other neighborhoods in years to come about as a result of your leadership, unheralded as it was many years ago, now come to fruition.

Mr. ROBBINS. I feel honored by what you say, and I deeply appreciate it.

Senator D'AMATO. We look forward to—and I know if we don't come as a committee, at least a substantial number of our members of our committee, and I hope Senator Sarbanes, who is a great friend of our community, and share so much in the way of commonality, our two States and our two urban centers, will have the opportunity to come up and see first hand, the great work you have done.

I would like to see that we offer that opportunity to all of those who have found it so easy to make a target of the Nehemiah concept. Let them view first hand the results and what it has done for so many citizens.

Thank you. Thank you, Mr. Chairman.

Mr. ROBBINS. Thank you, Senator.

Senator SARBANES. There is a vote on, and we are going to have to recess the committee in order to go and vote.

I want to thank the panel. You have been very helpful. I think this is a very exciting program, and it holds out great prospect, and the most important prospect it holds out—and it is reflected here today by Mrs. Patello and Ms. Reckling—is the sense of pride in the shaping of one's own life that this program offers to people.

Mr. Robbins, you have been very sensitive to that, I think, in your comments. This is a chance for people to really become part of the mainstream and to establish their home and their base and to build on that, and we intend to do all we can to push this thing forward and see a lot of Nehemiahs all across the country.

Mr. ROBBINS. Thank you. We are very grateful.

Senator SARBANES. We thank you for your testimony.

Mrs. PATELLO. Thank you.

Senator SARBANES. I will say to the third panel, where we are going to be addressing the tenant management issue, that there is a vote on now and Senator D'Amato and I will have to leave to vote. We will take approximately a 10-minute recess and return and pick up with the last panel.

And we appreciate your patience, but we have no—as you can understand—no control over this situation.

[Recess.]

Senator D'AMATO. Could we come to order and hear our third panel?

Bertha Gilkey, chairperson of the Cochran Tenant Management Corp. from St. Louis, MO.

David Caprara, National Center for Neighborhood Enterprise, Washington, DC.

And Kimi Gray, chairperson of Kenilworth Parkside Resident Management Corp. in Washington.

Excuse us for our delay.

## STATEMENT OF BERTHA GILKEY, CHAIRPERSON, COCHRAN TENANT MANAGEMENT CORP., ST. LOUIS, MO

Ms. GILKEY. Good afternoon.

Senator D'AMATO. Good afternoon.

Ms. GILKEY. Senator D'Amato, I just want to say to you that I am working and have been working in your city, in New York and Brooklyn and East Harlem, and the tenants talk right highly of you. I just wanted to say that, and they send you their love.

First of all, I want to thank the committee for allowing us to give testimony today on the tenant management bill.

I would like to say and state that my name is Bertha Gilkey. I am the president of Cochran Tenant Management Corp., and I would like to give you some brief history of what Cochran is, what city it lies in.

### COCHRAN GARDENS

Cochran Gardens is in the city of St. Louis. It is a public housing site, 6 and 12 story. Cochran Gardens was the first public housing highrise built in the City of St. Louis.

It was built predominantly for all-white families years and years ago. It is the oldest highrise public housing site in St. Louis.

My mother was one of the first black families that was allowed to move into Cochran. My mother moved out of a urban renewal area. She had the opportunity to move as the results of the equal rights and civil rights bill being passed, and that the cities were clearing the slums, because we lived in a slum area.

When we moved into Cochran, Cochran was a beautiful neighborhood. It was a beautiful apartment complex. It was not a project. It was not called a project. It was called Cochran Gardens.

We had telephones in the lobbies. We had mailboxes. We had a laundry facility. There was security. There was a community center in each building for the families in the building.

There was a screening. The housing authorities did screening and home visits for families prior to moving them into Cochran Gardens. You were moved in based on your family composition. You were also moved in based on your willingness to abide by the standards and the rules and regulations that were promulgated back in those days in public housing.

Cochran was a community. We could leave our homes with the doors unlocked. It was a safe place to grow up.

I watched my beautiful community. I have lived in Cochran since the age of 11. You also need to know that I come from a family of 15 children. I am the mother of two children.

I represent—my mother was the first generation in Cochran—I represent the second generation, and I have reared a daughter and son. My daughter is 20 years old in the third year of college. My son is 18 years old in his first year of college.

I come from a history of welfare. I have never received welfare myself. I was determined to do something differently for my children and set a different tone for my children.

It is also important to say to you that as a part of that concept that my mother pushed to me and I have pushed to my children, I watched our community move from a community, a neighborhood, as the people that were talking prior to us coming, into what is now called a project, a jungle, a place where nobody wants to live, a place where people are trying to get out of, not get into, as it was when we moved into public housing years ago.

And that was done systematically. It was done as the housing authorities gradually began to reduce their standards, eliminate screening, tenant selection, enforcement, close down social rooms, community centers, eliminate security, and, most of all, stop running the public—or managing the public housing property as a business, but more so as a social agency.

Gradually, we began to see Cochran become a dumping ground of people that nobody else wanted. Prior to Cochran becoming all black and female and low income, people were moved in based on their family composition. As it became all black, female heads of household, poor, they dumped people into three bedrooms.

For example, my mother lived in a three-bedroom with 15 children, and that was a tradition, and that was when I was 11 years old. I am now—I will be 38 years old next month, and I am telling you in 1987, in New York, in St. Louis, in Cleveland, OH, in Chicago, you got families with 15 and 16 children living in two bedrooms. So it still exists today in 1987, and it is worse now than it was then.

What caused us to take control of our destiny and begin to manage our own housing complex was that we gradually began to see Cochran become infested with drugs. The drug pushers took over. They moved into the vacant apartments. They sold drugs openly in our community. The elevators were being vandalized. Urine—you would walk in the elevators and not only smell urine, but you would walk into pools of urine.

Teenagers, 14, 15 years old, were shot in the head and left to lay outside dead 2 and 3 hours before the police would even respond, if they responded. It was nothing unusual in our community where children could not come outside and play in 105-degree weather because drug wars would break out. During the wintertime, ice. All the pipes would burst, and the stairs would be caked with ice. There would be no heat. Families were forced to turn on their stoves and suffer the fumes—that happens today in 1987—just to keep warm.

Traditionally, people have gotten accustomed to no hot water or having to put pots and pans on the stove just to have hot water to bathe or to cook in. Those are the conditions that we began to have to suffer and to encounter.

Rats walking up the side of our buildings into the patios where people would either have to shoot them off the porch or they would eventually move off the porch or families walking up under the patio and somebody hurling a stove or a refrigerator or large object down on them, determined to maim them or kill them.

That is the kind of neighborhood that I grew up in. That is what we began and we witnessed our community turned into.

By the time we decided that we were not going to live like this anymore, Senator D'Amato, it was after the blowing up of Puranigo—that was back in 1973—a public housing site in the City of St. Louis that housed 13,000 tenants. Well, 98 percent were women, minority that were forced out of their homes.

We knew that Cochran was going to be next because Cochran sits in a major redevelopment area. We then decided at that moment that we were going to take over managing our site.

Cochran at that time had 880 apartments. 440 were vacant, had been vacant almost 9 or 10 years. We had entire buildings that had been vacated. This was back in 1976, 11 years ago.

### RENOVATION PROCESS

We then immediately put into effect committee structures. We set up screening procedures. Tenants elected four captains, building captains, screening committees. We developed various job programs.

Today in Cochran not only have we been able to put back pride, self-respect, and dignity and self-esteem to people and give people the feeling of ownership—I mean, I love the word "ownership" because that is how we feel about where we live because we also have been in Cochran all our lives. Generations have grown up in our community, and we don't want to leave our homes either.

As a result of that, we have created job programs. We have to date just working for our management corporation 80-some permanent jobs. That consists of management positions, maintenance positions, custodial positions, exterminators, and so on and so forth.

We also have taken—and this is what I think is also a key component of our employment program—we can go outside, Senator D'Amato, and bring in outside people to take these jobs. We took residents who were on AFDC, general relief, welfare, first, second and third offenders, and we hired them to rebuild our community. We took third or first and second offenders who were vandalizing apartments, setting them on fire, and we hired them as a renovation crew, went out and got training funds through JTPA, JEPTA, OEO, anybody's money that we could get, training moneys we could get, and we trained for 3 years hard core youth, females and males, how to do nothing but apartment renovations.

So the young people who traditionally were tearing up our community, destroying the buildings were now assisting us in rebuilding it. They now work as apprentices, making $15 and $16 an hour, and we also have four of them who have graduated as journeymen making $25 an hour, not any longer taking from the system but putting back.

I also want to talk about the economic development that we were able to develop. Cochran TMC today, we are developers. We have formed partnerships and marriages with the private sector. We now own 800 units of new housing, apartment housing, 2—1, 2, and 3 bedrooms. We did a mixture of market rate and section 8 housing. We also took a blighted neighborhood area, 42 acres of vacant land, urban renewal that had sat dormant for the city almost 20 years. We were able to secure that land and today stands 675 units of new housing, 375 units of market rate and 300 units of section 8 housing. The entire project cost $45 million. Our syndicator is EF Hutton. Our tenant management corporation made $1 million off of the syndication alone.

We then went on and we encouraged the housing authority to allow us to be developers and build 100 units of new public housing units. Cochran TMC today built 100 units of 2, 3, 4, 5, and 6 bedrooms of public housing that we now manage for the housing authority, sold it to the housing authority, and profited $350,000 as a result of the sale.

And we are now housing 100 low-income families. That entire project was $5.5 million.

We went even further, Senator D'Amato, and contacted the Board of Education, who had schools they had closed down, they were in the process of demolishing, but schools that cost the taxpayers some $5 and $6 million that they were now going to tear down because of the low enrollment rate. We took one school. We are now in the process of negotiating another from the Board of Education. Purchased it for $30,000. Now stand 39 units of rehab units. We took a school, rehabbed it into apartments. We have 39 units of market rate and section 8 units, and that project was done with an existing vacant school.

Our tenant management corporation as a result of just the construction alone, we have been able to hire almost 75 residents, put them to work in the construction field as apprentices. Again, these were first, second, third offenders, ADC mothers who did not have skills prior to us training them and employing them.

We then decided to establish a catering company. We now have a catering company that employs 25 residents. Our director is an ex-welfare mother. All of our employees live in public housing. We provide 800 meals today. We have a direct contract with the Department of Aging and the Department of Agriculture to provide child care, the Child Care Nutritionist Program for the day care centers that we own and operate. We do all—we are the meals-On-wheels in public housing in the city of St. Louis.

We have our own janitorial company. We have been able to take 47 residents through our joint venture in collaboration with the downtown businessmen who loaned us their supervisor of their janitorial company, trained 45 of our residents for free. We then created our own company. Not only do we have a contract to clean our public housing site. We have picked up small contracts from the banks and from the downtown businessmen to continue the development of our janitorial company.

Today we also are owners of a cable company. We own 10 percent of a cable company in the city of St. Louis. We install all the cables in public housing. We disconnect, and we also market the cable for the cable company in St. Louis, and we get 10 percent of the profits as a result of that, along with the jobs.

We develop various social service programs because tenant management is not the traditional public housing management. You need to understand that. We deal with tenants in a holistic approach. We weren't just concerned that housing was bad because the management of the public housing was bad. That was not——

Senator D'AMATO. Let me, if I might, because we have gone over our time—I am going to move on to some of our others—but I am going to have to leave. Senator Dixon from Illinois is going to be here. I wish more of our committee had heard this incredible story of success.

But I am going to break the mold and ask you a question before I leave because I want to get this.

FROM: BUILD (Baltimoreans United in Leadership Development)

TO: Senate Housing Sub-Committee

RE: Testimony on Behalf of the Nehemiah Program

DATE: February 19, 1987

Chairman Cranston, Members of the Housing Sub-Committee, and
Senator Sarbanes:

The BUILD Organization would like to thank you for this opportunity to talk with you. I am Carol Reckling, President of BUILD.

Mark Twain once said that the difference between the right word and the almost right word is the difference between lightning and a lightning bug. I hope that my remarks will lean heavily toward the former.

BUILD (Baltimoreans United in Leadership Development) is a metropolitan organization made up of 47 congregations, 3 unions, and an association of public housing tenants. We are part of the Industrial Areas Foundation Network, which through East Brooklyn Churches, our sister organization, and the work of Mr. I. D. Robbins, birthed the Nehemiah plan upon which this legislation is based.

Senators, the Nehemiah concept is bringing new life to old truths. About 100 years ago, John Stuart Mill wrote, and I am paraphrasing, in the conclusion of his classic work On Liberty: "The worth of the state in the long run is the worth of the individuals composing it. A state which dwarfs its people, will find that with small people no great things can be accomplished. And that the perfection of machinery to which the state has sacrificed everything will in the end avail it nothing."

Senators, our government dwarfs its people, not so much by its size as by what it does not do to strengthen and deepen its people's ability to become the makers of their own history. This issue goes beyond party affiliation, whether democrat or republican. The question goes to the very heart of what kind of citizens we wish to develop in our republic.

This Nehemiah housing bill is in the tradition of the Homestead Act and the legislation which gave birth to the FHA and VA programs - a tradition which sought to empower generations of families to create whole new communities. This legislation will assist Black families, White families, Hispanic and Asian families to build communities where they may grow together, raise their families together, and participate as citizens in the democratic tradition of hope and struggle that our parents and grandparents had a hand in creating.

We in BUILD have developed what we call our Municipal Agenda. An important element of our agenda is the opportunity for at least 1,000 families per year to become first-time homeowners. Senators, in

Baltimore 42,000 of our people are on waiting lists for public housing. There are nearly 6,000 vacant houses and many homeless citizens walk our streets with no place to go.

BUILD is ready to begin. We are ready to organize families, raise money, clear land and renew old shells of buildings, but we are here to say we need the federeal partner. Senators, when this legislation passes, we will hit the ground running in Baltimore. Let us together make a way where no way exists. Let us not miss this opportunity. Let your actions not be that of almost right actions.

Let your actions bring forth the lightning of democratic opportunity for all of our people and not lightning bugs.

Respectfully,

Carol Reckling,
President of BUILD

It seems to me that a number of times—I don't know how you work these buttons here—a number of times, Bertha, you made reference to tenant selection. You went back and said that it seemed to you that as a youngster, initially, they had pretty tough rules and regulations and that that went by the boards.

What did you do in your management? What about the tenant selection now? How do you deal with that?

Ms. GILKEY. Well, first of all, Senator D'Amato, we have developed our tenant management corporation jointly with the tenants that live in our community—because I just need to say to you real quickly that I am elected. I am not a salaried person. I have served on the board since the age of 16 years old. Every 2 and 4 years we have to be elected by the residents in our community.

### SCREENING PROCEDURE

Senator D'AMATO. But my point is, ma'am, am I right in saying that you have done something special in this tenant selection with your standards and people?

Ms. GILKEY. Yes, we have. We have developed a screening procedure. The screening procedure consists of a home visit prior to a family moving into our community. We have 12 buildings in Cochran, highrise.

Senator D'AMATO. Sure.

Ms. GILKEY. In those buildings the tenants elect a building president. The building president is a part of our overall screening committee because whoever moves into the community, into Cochran, has to move into one of those buildings, so that people who live in that building should have some say-so over who is going to move there.

Senator D'AMATO. Now, if you feel that a person does not have the right social attitude, let's say, you are not going to discriminate because the person is AFDC?

Ms. GILKEY. No, sir. Let me just be real clear.

Our screening procedures that we have developed have been scrutinized by the Legal Aid Society. The National Legal Aid Board has reviewed our screening procedures and sent them back with an A-plus. We don't discriminate against color, sex, age, or anything.

What we do is we say to people that we—and we have a right—we want to see how you live. We want to make sure that when you move into Cochran that you understand the kind of standards that we expect of you. The standard that we ask from them is no different than that in the housing authority's lease. We don't change the lease, Senator D'Amato. We use the same policies that HUD and the housing authorities have developed. The only difference is that we enforce them.

When tenants come in——

Senator D'AMATO. You enforce them?

Ms. GILKEY. Yes. If they pass——

Senator D'AMATO. So that if a person starts to act in a way which infringes on others' rights you give them a warning?

Ms. GILKEY. Yes.

Senator D'AMATO. And thereafter you will take the appropriate legal action?

Ms. Gilkey. Yes. Let me tell you what that warning consists of.

If a tenant in a particular building, that has moved into a particular building, child, let's say is selling drugs and is caught selling drugs in the building on the floor, the first thing that happens is the building council—before he gets to our tenant management corporation there is a building council in each building. They meet with that family. They bring the mother in, and they discuss what the problem is.

Let's say if the family commits another act. Let's say that next week there is garbage set outside in front of the incinerator. We go into the garbage and find that tenant's name in the garbage. That family is brought down again before the council in that building where that family lives and warned. A second warning is given to that family about their lease violation.

Let's say that again the family is caught—the child of a family is caught writing on the wall or knocking a hole in the wall in that particular building. A third time the mother is brought in, warned, and given a violation, Senator D'Amato. Every time she comes in she gets a violation for that particular act. Our security issues a violation.

The next incident that occurs from that family, that family is then referred from that building to the manager. Then the manager has enough documentation because there has been three previous incidents that the council in that building has documented. Now the manager can bring that mother in and induce more stringent action on the behavior of that family, and if—let me say this to you.

Our ultimate and last goal is to evict any family. We've been managing competently for 11 years. We have almost 4,700 people living in our community. Almost 2,000 are teenagers, young people.

We have not evicted but 27 families in 11 years, and we think that that's good because what we try to do is we try to work with the families.

Another example is, if we have a family who is a poor housekeeper, because we go in every year and we do home inspections to make sure that the units are maintained—the reason for that, because if a family is a poor housekeeper, it ultimately affects our ability to manage because it's going to cost us more money to turn that unit around if it's not maintained.

### ANNUAL APARTMENT INSPECTIONS

So we go in periodically, annually, and do apartment inspections. But, if we've got a family who is a poor housekeeper, we will marry that family with somebody who is a good housekeeper, to work with that family to bring up the housekeeping standards.

But, the bottom line, Senator D'Amato, is that family's housekeeping standards have got to change. We don't look at public housing as a project, Senator D'Amato. It is our home. It is our neighborhood. And we intend to put back into public housing the pride, the dignity and the self-respect that has been lost.

Public housing, years ago, was good housing. It was housing that people were trying to move into, not to move out of. And we intend to put that back. And we understand that if poor people are part of the problem, we have to be part of the solution. We have to be given the opportunity to control our destiny, just like every other American.

Senator D'AMATO. If I might say it——

Ms. GILKEY. And I love Senator Dixon.

Senator DIXON. Oh, I think you're terrific and inspiring.

Senate D'AMATO. I wish that more of our colleagues could be here. I'm going to have to leave, but I want to ensure you and the others that I am certainly going to very carefully read the record.

Ms. Gray, your work is legendary. You have set about a new tone. And I would like to get the opportunity to share some of your thoughts with myself and with my staff. Hopefully, I can be a strong ally to Senator Dixon, who has been in the forefront of attempting to turn around the living standards for our people and make what we call the dreaded projects into something where once they were proud, and people were so full of pride to be in.

Ms. GILKEY. That's right.

Senator D'AMATO. In their home. At a reasonable rate that they could afford, and to share with their neighbors and their neighbors' families.

I speak of that with some knowledge because, in the City of Newark, NJ, that's where my grandparents started their home. And that's where they lived a good part of their lives, in a place that was not a project but was a magnificent place to raise their children, and to be.

And why should we have those broken dreams when, with a little difference—and the difference being people who care and given the opportunity to do something.

So I simply want to say this before I leave to my dear friend and the chairman, that I look forward to working with Senator Dixon and seeing to it that we implement the kind of legislative initiatives that really would give rise to further victories over the broken promises of the past—and save money—and save lives—and provide human dignity.

Ms. GILKEY. Yes.

Senator D'AMATO. And really uplift not only that region, but the entire community.

Ms. GILKEY. That's right.

Senator D'AMATO. I mean, you really have opened up new vistas in your short presentation to this Senator. I was smiling when you mentioned cable TV. They even got the cable TV company there, and going.

Senator DIXON [presiding]. I just want to say that my distinguished friend from New York State has been such a good supporter of so many worthwhile causes. We worked together as comanagers of the mass transit legislation a couple of weeks ago, and I think got an outstanding result. I think this is the first time that mass transit legislation has passed the Senate in 1 day of working time.

Senator Al D'Amato and I worked very well together on that. We really appreciate your offer, Senator, to work with us on the tenant management proposal.

Anybody that hears Bertha Gilkey and can't be inspired to go forward and fight the good fight and give residents in these buildings the opportunity to run their own affairs just can't be inspired at all.

### RESIDENT MANAGEMENT CREATES EXCITEMENT

Senator, Bertha Gilkey was in Chicago, went into Cabrini-Green and other places with us. We had a busload of people from all over the city. Everyone came away from there all excited and inspired and eager to go forth and to do everything that needs to be done to achieve resident management opportunities all over the country at Cabrini-Green, LeClaire Courts, a lot of other places.

Senator D'AMATO. I would hope maybe with Senator Dixon, Bertha—now, this is the second group that we've mentioned, but maybe we could pay a visit and meet with the city housing people and take a look, and try to get some of that good management into effect up in New York. Lord knows, we need it.

Ms. GILKEY. I'm working with 16 groups there now. You're right. Nine groups in Brooklyn and 12 groups in East Harlam.

Senator D'AMATO. Well, that's fine. Maybe you and Carmen can get together and I would like to harness some of that energy up there.

Ms. GILKEY. I'd like that. Thank you.

Senator D'AMATO. And be part of that.

Ms. GILKEY. Thank you.

Senator DIXON. Well, I want to thank my dear friend, Al D'Amato, Senator D'Amato, for chairing in my absence. I want you all to know that I apologize for being a few moments late. Another distinguished colleague, Senator Heinz, and I, were introducing a very important piece of legislation on the floor of the Senate that will be in this committee as well.

I assume, having come here at the end of your excellent remarks, that you have concluded, Bertha, and I move on now to my good friend, David Caprara.

Is he the next one here now? Dave is employed by the Neighborhood Enterprise Center. It was David, along with many residents from two public housing projects in Chicago—Cabrini-Green and LeClaire Courts—who first appealed to me to consider a resident management of public housing proposal. He was serving as an intern on my staff on loan from the staff of the chairman of the Illinois House Human Resources Committee, Representative Jessie White, an old friend of mine with whom I served in Illinois government.

David did a magnificent job coordinating activities centered around tenant management.

David, we're delighted to have you here today. Thank you for your interest, and we're interested in your testimony.

## STATEMENT OF DAVID CAPRARA, LEGISLATIVE LIAISON, NATIONAL CENTER FOR NEIGHBORHOOD ENTERPRISE PUBLIC HOUSING RESIDENT MANAGEMENT DEMONSTRATION

Mr. CAPRARA. Thank you, Senator Dixon, Mr. Chairman, members of the Subcommittee on Housing and Urban Affairs. I am the legislative liaison for the National Center's Public Housing Resident Management Demonstration Program. Our program is funded by a $1.9 million grant from the Amoco Foundation.

The program's a 3-year demonstration providing training and technical assistance to 12 sites across the country, in the areas of resident management, economic development, and home ownership opportunity.

I'm here, Senator Dixon, to speak in strong favor of your bill, the Public Housing Resident Management Act of 1987 and the provisions contained in S. 2507 for resident management, which would empower tenant management corporations with the full capacities of self-governance.

The National Urban Coalition, the National Association of Neighborhoods, the U.S. Chamber of Commerce and the Public Housing Resident/Tenant Coalition join me in endorsing these provisions and commending you for your compassionate interest in this issue as evidenced by your field tours of the public housing sites.

I would like to suggest that the resident management provisions you have introduced represent a historic new opportunity for the empowerment of the poor throughout our country, as well as the revitalization of urban areas contiguous to these sites.

Since the early 1970's, the track record of resident management has proven that it can reduce high crime and welfare dependency, improve site management while reducing program costs, and create new jobs and social services, such as day care.

## EXPERIENCES IN CHICAGO

Briefly, I would like to relate some of my experiences in Chicago where the Roosevelt University urbanologist, Pierre deVise, cited 10 of our Nation's 16 poorest communities within CHA public housing.

An area within Cabrini-Green was identified by Dr. deVise as the second poorest neighborhood in the country, with 90 percent of the residents living below the poverty line.

In 1984–85, an outburst of gang violence in Cabrini-Green resulted in 13 homicides, Senator Dixon; the shootings occurred largely from highrise, vacant units.

At that time Ms. Lillian Swope, the president of Cabrini-Green, and other resident leaders began to turn to the ministers in the community, but most of all within their own development at Cabrini-Green to find solutions. They began to search for mechanisms to empower the residents to take back control of their buildings and to save their children.

Senator Dixon, with your gracious support, there were two tours organized in 1985—one by the LeClaire Courts resident group and another by the Cabrini-Green group of 30 resident council leaders.

They came to Washington, DC hosted by Kimi Gray, chairperson of the Kenilworth-Parkside Resident Management Corp., to study a national model of successful resident management.

Inspired by successes in Washington and St. Louis, and other cities, residents of five different CHA public housing sites are now conducting one-building demonstration programs to develop resident management in their sites.

These sites include: Cabrini-Green, Ida. B. Wells, Washington Park, Ogden, and the NCNE demonstration site at LeClaire Courts. The LeClaire group is about to establish Chicago's first resident management contract with the CHA, after undergoing one year of training.

In 1986, a Chicago public housing resident survey conducted in three CHA sites by the Metropolitan Planning Council found that, 70 percent of the residents support tenant management; 89 percent want to receive more information about it; and a full 96 percent of the residents indicated they are willing to meet regularly with their neighbors to discuss management and maintenance improvement strategies.

I hope by this case example of wide spread support for the resident management program in Chicago, the committee and the staff can see its relevance as one major component of a national strategy to deal with the problems in troubled housing communities.

It is also important again to note, that the track record of resident management has been established since the early 1970's, when our colleague, Don Campbell, and others who were in Boston at the time, worked with Mildred Hailey and the resident leadership at the Bromley-Heath site to develop the nation's first tenant management corporation.

Bromley Heath, TMC took over site management, of what was then a very troubled housing authority, and cut crime by 77 percent, according to the Wall Street Journal, and established a national model for tenant security patrols.

And while I will leave it to Kimi Gray to share the successes of Kenilworth-Parkside, I would like to share the findings of an NCNE commissioned independent audit by the international accounting firm, Coopers and Lybrand, which projected that a net $4.5 million benefit will accrue to the District Government over a 10-year period due to the cost-effective practices of Kenilworth-Parkside.

KPRMC has provided new jobs and services; cut administrative costs; and increased rental collections by 77 percent to the present—per unit month rate of $155.

Mr. Chairman, I would like to dispell the myth that resident management is the work of charismatic tenant leaders. As the MPC study showed, 96 percent of the residents in CHA would like to be given this opportunity to participate in their site management.

At LeClaire Courts and other sites across the country, public housing residents are enthusiastically participating in thousands of hours of training, electing nonprofit boards, and sustaining ongoing participation in maintenance of their developments.

The provisions of S. 2507 establish the kind of accountability, democrate elections, and training processes that are required to ensure success.

I would just like to cite in summary—several additional items that could be strenghened or added to the present bill to improve it.

When responsibility is passed on to a group of residents, without providing capacity for repairing faulty boilers, or roofs that are caving in or leaking, literally, success is difficult to achieve.

The CIAP program has thus been critical for the success of resident management.

### CEILING RENTS FOR APARTMENTS

Another element that the House bill has considered is the notion of fair market or ceiling rents for public housing residents.

Presently, U.S. housing law requires tenants to pay a flat 30 percent of the rent, without regard for the amount of aggregate income of the family.

According to Lillian Swope, the president of Cabrini-Green, the resident families sometimes pay up to $800 per month rent if two parents are working. This policy establishes a perverse disincentive to work and to putting both parents on the lease.

The end result has been to force public housing resident leadership and stable working families out of their homes, leaving behind what can accurately be called poverty plantations.

I urge this subcommittee to study the issue of defederalizing rents to allow local public housing authorities to have flexibility in establishing fair market or ceiling rents.

In addition to establishing HUD technical assistance provision for resident management corporations in S. 2507, the U.S. Department of Labor should be directed to look at the job creation potential of resident management successes in relation to the Job Training Partnership Act.

Another needed refinement is to establish a provision for resident management of a building or section of a housing development. In Chicago, as I mentioned, there are four sites that are presently piloting resident management within one building or section of their development.

Finally, I would like to note that public housing home ownership opportunity is a dream for many of the low-income resident management corporations.

In Chicago, the Metropolitan Planning Council study found that 75 percent of the CHA residents wanted more information about home ownership and 53 percent expressed actual interest in owning a unit in their building.

The resident management cooperative model is the most realistic, feasible model for homeownership conversion of a multifamily, public housing property. While not all tenant management groups desire this, some, most notably, the Cochran Tenant Management and Kenilworth-Parkside groups, have a strongly stated goal of achieving home ownership at their sites, which should not be denied.

The Federal Government has historically placed great trust in homeownership opportunity nonprofit corporations such as the committee is proposing with the Nehemiah Program including church responsibility for developing low-income homeownership. Low-Income resident management corporations should be entrusted with comparable ownership responsibilities in the housing authorization bill this year.

It is important to note in each of these cases, the resident management corporations have become catalysts for creation of new, low income housing within their communities.

Cochran tenant management ventures have created over 800 new units of housing. The National Center for neighborhood Enterprise is presently providing Cochran TMC with technical assistance to convert an old school building into senior citizen housing.

The Kenilworth resident management group is looking at properties all around their site to develop additional new housing. I want to refute the contention that resident managers are trying to take housing out of the low income stock. In fact, they advocate provisions in the bill which would ensure that their properties remain in the hands of low-income managers.

Mr. Chairman, in conclusion, this job creation and development spiral of resident management has truly become a model and a new hope for urban revitalization throughout the country.

I would like to request that my full written text, as well as the Coopers and Lybrand report and articles which have been submitted to the committee, be included in the record.

And thank you again for your genuine concern. I cannot tell you how much it meant to the people of Cabrini-Green and LeClaire Courts for you to take the time to tour their sites in Chicago and to hear the views firsthand.

Thank you again.

[The views expressed in the preceding testimony are the personal views of David Caprara and do not necessarily reflect those of the board, funders or staff of the National Center for Neighborhood Enterprise]

[The complete prepared statement of David Louis Caprara, the Coopers and Lybrand report, and miscellaneous news clips follow:]

**National Center for Neighborhood Enterprise**
1367 Connecticut Avenue, N.W., Washington, D.C. 20036 / (202) 331-1103

## TESTIMONY BEFORE THE UNITED STATES SENATE
## HOUSING AND URBAN AFFAIRS SUBCOMMITTEE

February 19, 1987

David Louis Caprara
Legislative Liaison
Public Housing Resident
Management Demonstration

Robert L. Woodson
President

Rosalind R. Inge
Project Director

*"Turning Problems Into Opportunities"*

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## RESIDENT MANAGEMENT OF PUBLIC HOUSING: NEW HOPE FOR URBAN REVITALIZATION

Honorable Chairman Alan Cranston, Senator Alan J. Dixon, and Distinguished Members of the Subcommittee on Housing and Urban Affairs:

My name is David Caprara and I am the legislative liaison for the National Center for Neighborhood Enterprise Public Housing Resident Management Demonstration. Our demonstration, funded by a $1.9 million grant from the Amoco Foundation, is engaged in a three-year training program at twelve public housing sites in the areas of resident management, economic development, and homeownership opportunity for the low-income.

I am here today to speak in strong favor of provisions in S. 2507 (reintroduced in the 100th Congress as S. 243 by Senator Alan Dixon) to empower non-profit public housing resident management corporations with full capabilities of resident self-governance. I would like to commend Senator Dixon and the Senators from both sides of the aisle for forging a strong bipartisan coalition in favor of these measures, which were approved by a unanimous vote of 420-0 in the House of Representatives last year. The National Urban Coalition, the National Association of Neighborhoods, U.S. Chamber of Commerce, and the Public Housing Resident/Tenant Coalition join us in endorsing these provisions and commending you for your compassionate interest in addressing the problems of troubled housing communities.

Mr. Chairman, Senator Dixon, I would like to suggest that the resident management provisions in S. 2507 and S. 243 represent an historic new opportunity for empowerment of the poor and revitalization of urban areas across the country. Since the early 1970's, resident management efforts in fifteen areas have proven successful in reducing high crime and welfare dependency, improving site management while reducing program costs, and creating new jobs and social services.

Briefly I would like to relay some of my experiences and research on the impact of these proposals on the Chicago Housing Authority, where, according to urbanologist Pierre deVise of Roosevelt University, ten of our nation's sixteen poorest neighborhoods are found.

I worked and lived for five years in the vicinity of the Cabrini-Green public housing development, as director of a volunteer agency and later as a tenant relations staff and legislative assistant to Illinois State Representative Jesse White, Chairman of the Illinois House Human Services Committee. A major section of Cabrini-Green was identified by Dr. deVise as the second poorest neighborhood in our country, with 90% of the residents living below the poverty line in predominately female headed households.

In 1984-85, an outburst of gang violence in Cabrini-Green resulted in 13 deaths, including a 9-year-old "A" student in the fifth grade named Laketa Crosby. The residents in Cabrini have lived throughout the past decade in a state of perpetual fear for their children and their own lives, as sniping by warring gangs from high-rise vacant apartments has escalated.

In this state of crisis Mr. Chairman, I began to work with tenant leadership of Cabrini-Green to research models for resident management training and resident empowerment to take back control of their communities. With the gracious support of Senator Dixon and the Amoco Foundation, we organized a field trip in 1985 which allowed thirty members of the Cabrini Green resident council to visit the Kenilworth Parkside Resident Management Corporation here in Washington to study their successes in arresting high crime and restoring pride in their communities. A September 1985 article in the

Washington Post entitled "Kenilworth Lights A Path" recorded this event. Since that time, I am pleased to report that residents of four different Chicago public housing communities have commenced training programs for resident management, in demonstrations supported by the Metropolitan Planning Council at Cabrini-Green, Washington Park, and Ida B. Wells, and the National Center for Neighborhood Enterprise at Leclaire Courts. The National Center's demonstration at Leclaire is nearing completion of Phase I community organization and management training, and they are presently negotiating a management contract to become Chicago's first resident managed development.

A 1986 public housing resident survey conducted by the Metropolitan Planning Council at three of the high-rise CHA sites found that 70% of the residents support tenant management, 89% of the residents want to receive additional information about resident management, and 96% of the residents indicated they are willing to meet regularly with their neighbors to discuss management and maintenance improvement strategies.

The resident management program in Chicago has been strongly endorsed in a City Council resolution which was co-sponsored by seven aldermen representing each of the city's wards with large public housing constituencies. I am also happy to report that Mayor Harold Washington last week dedicated the Cabrini-Green building undergoing tenant management training as the "Bertha Gilkey Plaza," at the request of the residents in that building.

I hope by this case example of the widespread support for resident management as a strategy for improving the quality of life in Chicago's troubled public housing, you can see its relevance as one essential component of a national strategy to improve public housing.

It is also important to note that a track record of resident management has been established since 1970 when the first tenant management corporation was formed at the Bromley Heath development in Boston as an experimental program. Tenant security patrols at that site received national recognition for improving living conditions and cutting crime by 77% in the development.

In the mid-1970's, the A. Harry Moore Tenant Management Corporation in Jersey City established another success model as part of a Ford Foundation demonstration supported by H.U.D. According to a report of the Jersey City Housing Authority, occupancy rates have been increased to an unprecedented 98% under resident management - a complete turnabout from the previous vacancy rate of over 20%. The number of apartment repairs remaining incomplete on a monthly basis was reduced from the 150-300 range to a 20-40 range per month, and crime was reduced from a rate of three times the citywide average to the present rate well below the citywide crime average.

And while I will leave it to Kimi Gray to share the successes of the Kenilworth-Parkside Resident Management Program here in Washington, D.C., I would like to report to the Committee that an independent audit by the international accounting firm Coopers and Lybrand commissioned by the National Center projected that a net benefit of $4.5 million will accrue to the District government as a result of the effective management practices at Kenilworth under resident control. Factors involved in this success include an increase in rental collections by 77%, decreased administrative costs, welfare dependency reduction, and creation of new jobs in small businesses and other resident owned and operated enterprises such as day care and a new health facility.

Mr. Chairman, I would like to dispel the myth that resident management is the work of charismatic tenant leaders. As I noted in the case study of Chicago, 96% of the residents surveyed in the Chicago Housing Authority

expressed willingness to meet to develop strategies for maintenance and community improvement. All across the country, we are witnessing a grassroots self-help movement on the part of low-income people to take charge of their communities, to put back standards and restore pride, and to develop job creation partnerships that work.

Residents at Leclaire Courts and the other sites in our training demonstration have enthusiastically committed themselves to the arduous process of undergoing thousands of hours of management training, democratic election of non-profit corporate boards, and ongoing participation in maintenance and operation of the developments by resident managers, the community board, and the residents at large.

The resident management provisions of S. 2507 and S. 243 recognize this process of training, democratic elections, and bonding and insurance protections to ensure accountability and success in expanding the national commitment to this program. Another vital component included in the bill is the provision of Comprehensive Improvement Assistance. CIAP modernization funding to repair faulty roofing, boiler systems, and other major structural and mechanical systems is essential in the process of transferring responsibility for site management to the residents, and it should be noted that resident managed properties are apt to sustain modernization improvements over longer periods of time.

I would at this time like to enumerate several additional legislative provisions which if adopted would markedly improve S. 2507 by further enhancing the capability of public housing resident management groups to better their communities:

PROPOSED REFINEMENTS AND ADDITIONS TO S. 2507

1. Ceiling or "Fair Market Rents" for Public Housing Residents

Presently U.S. Housing law requires public housing families to pay a flat 30% of aggregate family income, without regard for the fair market rental value of the apartment. In the case of two-parent working families, in Cabrini-Green for example, residents have been forced to pay as much as $800 for their apartments, according to Lillian Swope, President of the Cabrini-Green's resident council. The result of this federal housing policy has been to force all of the public housing resident leadership and stable working families out of the development, leaving behind what have accurately been described as segregated "poverty plantations." Public housing resident leaders across the country have described this lack of a ceiling or fair market cap on public housing unit rentals as a perverse disincentive to employment and family stability for the low income.

In light of the expressed commitment of Congress and the Administration to achieving welfare reform this year, I urge the Subcommittee to study the issue of "defederalizing" rents and allowing local public housing authorities to have the flexibility to establish ceiling rents based on the local fair market values of the apartments. This provision, which is contained in the House version of the housing authorization bill, is critically needed if federal policy is to succeed in promoting resident initiative and solutions to multi-generational poverty in public housing.

2. Technical Assistance Provision to Resident Management Corporations

S. 2507 provides for up to $1.5 million in technical assistance grants from existing comprehensive improvement funds to 15 resident management corporations for training programs. It is my understanding that this figure was first proposed during the 1985 housing authorization proceedings based on public housing interest in the program at that time. In light of the national publicity and expanded resident interest in over 40 groups across the country, I would advise the Subcommittee to increase the maximum technical assistance provision to $4 million from existing modernization funds.

3. Provision for Resident Management of a Building or Section of a Housing Development

In some instances, residents of a building or particular section of a housing development may be interested in contracting with the housing authority to manage their own buildings. I am told by the resident council president of Cabrini-Green that one building presently undergoing management training may seek to establish a building resident managed corporation on a demonstration basis. S. 2507 and S. 243 should be amended to allow a majority of a building's residents or the building's elected resident council to approve the establishment of a resident management corporation, providing that they can meet the protective provisions and requirements established throughout the legislation. It is important that this type of flexibility is allowed for pilot demonstrations and creative community designs within large public housing developments - which in many instances may be comprised of several different distinct, geographically defined neighborhoods.

### 4. Public Housing Homeownership Opportunities

The issue of public housing sales to individual tenants and to resident management corporations is a controversial one, and I am pleased that S. 247, the Public Housing Resident Management Act of 1987, gave resident management appropriate treatment as a separate issue and legislative proposal.

The 1986 Metropolitan Planning Council's resident survey at three high-rise sites in Chicago found that 75% of the CHA residents were interested in receiving more information on homeownership options, and 53% expressed actual interest in owning a unit in their building. The most viable model for homeownership conversion within a large multi-family public housing development may well be a cooperative purchase by the resident management corporation.

Not all resident management corporations and tenant associations are seeking homeownership opportunities. But several, most notably Cochran Tenant Management Corporation in St. Louis and Kenilworth-Parkside Resident Management Corporation here in the District, have expressed a strong aspiration and goal of homeownership which should not be denied. In that the federal government historically has placed great trust in allowing non-profit organizations to own and operate subsidized low-income housing stock - as this Committee has proposed in the instance of church-sponsored Nehemiah Housing Opportunity Grants - I would propose that the potential for alternative low-income housing ownership through non-profit resident management corporations be explored by the Subcommittee as a part of a 1987 authorization bill.

The homeownership proposals for resident management conversion of public housing properties in St. Louis and here in the District contain provisions to retain the low income characteristic of the housing stock. It is important to note that in each of these cases, the resident management corporations are involved in developing new housing projects for senior citizens and low and moderate income families. Cochran TMC has already joint ventured construction of over 700 new units of housing in three projects, and the National Center for Neighborhood Enterprise is presently involved in providing technical assistance to Cochran for the conversion of an abandoned school to provide elderly housing. Kenilworth-Parkside is also engaged in development projects for rehabilitation and construction of new senior citizen and low income housing in the areas contiguous to their housing development.

Mr. Chairman, I hope by this testimony of the experiences and successes of resident management over the past two decades, the Subcommittee will be able to see the tremendous significance and implications of their achievements for the future of low income housing provision in this country. The job creation and development spiral of low income resident groups has clearly established a workable formula for ending poverty and restoring pride in public housing communities, while defining a new frontier for urban revitalization.

I would like to request that my written prepared text and the attached articles, as well as the Coopers and Lybrand cost-benefit analysis of resident management at Kenilworth Parkside, be added to the hearing record.

Thank you very much for the time you have spent to hear the first hand reports of grassroots resident management leaders, and Senator Dixon, for the time you took to tour the Leclaire Courts and Cabrini-Green developments in Chicago.

# COST BENEFIT ANALYSIS
# OF THE
# KENILWORTH-PARKSIDE PUBLIC HOUSING
# RESIDENT MANAGEMENT CORPORATION

## Executive Summary

Robert L. Woodson
President

Rosalind R. Inge
Project Director

May, 1986

National Center for Neighborhood Enterprise

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"Turning Problems Into Opportunities"

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## BACKGROUND

Community-based efforts across the nation to transform impoverished, crime-ridden public housing developments into decent, affordable housing communities have been revolutionized in the 1980's by a quiet trend toward resident management and other economic enterprises initiated by public housing residents themselves.

Public housing residents have taken courageous stands toward establishing their own professional management corporations that have provided on site jobs, security and maintenance services, and managerial tasks with the hope of one day providing an opportunity for resident homeownership. In resident managed developments, teen pregnancy, crime, and welfare dependency have declined while creativity, self respect, and the overall quality of life have risen.

Heretofore, these benefits have never been analyzed or discussed in public policy making. Coopers and Lybrand, working on behalf of the National Center, conducted this first documented cost-benefit analysis of resident managed housing at the Kenilworth-Parkside Resident Management Corporation in Washington, D.C. The net benefits documented herein resulted from cost effective administrative practices; increased rental collections; decreased vacancy rates; and increased resident employment, day care, and other social services.

In 1984, the National Center for Neighborhood Enterprise sponsored a national conference for the leaders of the six most successful resident management corporations. The Center subsequently convened a nationwide satellite teleconference with resident managed groups across the country and, in 1986, announced a twelve city public housing demonstration. Supported by a $1.9 million grant from the Amoco Foundation, NCNE's Public Housing Resident Management Demonstration Program is providing technical assistance and training to public housing resident management organizations in three categories: resident management, economic development, and homeownership conversion. NCNE will commission additional cost-benefit analyses at six other resident managed sites during the demonstration.

The Coopers and Lybrand report comes at a critical time when communities are struggling with scarcity of federal resources and mounting social crises within public housing. Building on fourteen years of notable accomplishments by resident managed developments across the country, the study findings make a clear case for new federal policies encouraging greater development and removal of barriers to neighborhood self-help.

## SUMMARY OF MAJOR FINDINGS

A summary of the major findings is presented below.

- The net benefit to the District government for the four-year horizon (1982 through 1985) resulting from the institutionalization of resident management at Kenilworth-Parkside is $785,332. The projected net benefit to the District government for the ten-year horizon (1982 through 1991) is $4.5 million.
- Per unit month (PUM) rent collections increased 77.1% at Kenilworth-Parkside from F.Y. 1982 to F.Y. 1985. Authority-wide PUM rent collection increased by 11.4% during the same period.
- The vacancy rate at Kenilworth-Parkside decreased by 70% during the years following resident management. Vacancy rates for both the Highlands and the Authority as a whole increased over the same period.
- At least 132 residents were removed from public assistance dependency through the direct intervention of Kenilworth-Parkside Resident Management Corporation (KPRMC).
- Total Tenant Accounts Receivable (TAR) at Kenilworth-Parkside remained constant from 1983 to 1985 after having increased annually from 1979 to 1982. Total TARs at the Highlands increased markedly in every year from 1979 to 1985. Authority-wide TAR data is known only for 1983 and 1984, during which time TARs increased in nominal terms and as a percentage of annual rental income.
- KPRMC incurred a surplus of rental income over operating expenditures (net of utility costs) in every year of its operation with the exception of F.Y. 1983. Consequently, the Department of Housing and Community Development has not had to subsidize Kenilworth-Parkside operating expenditures net of utility costs since residents assumed management control in 1982.
- Arson and burglary decreased annually at Kenilworth from 1982 onward in both nominal terms and as a percentage of arson and burglary crimes committed in the surrounding neighborhood.

## EXECUTIVE SUMMARY
## Kenilworth Parkside Cost-benefit Analysis

Low income housing was initiated in 1937 with the passage of the U.S. Housing Act. The Act provided for the federal government to finance state and local ownership of new public housing developments by paying the debt service on local Public Housing Authority [PHA] housing bond issues. The Act further mandated that operating costs of public housing be funded solely through rent receipts.

Public housing was originally created to serve as a temporary residence for middle class families that were rendered homeless during the Great Depression. During the post-depression economic recovery upwardly mobile families migrated out of public housing. The public housing population became increasingly poor, welfare dependent, and black.

In this environment local PHAs found it increasingly difficult to maintain the public housing stock using revenues that were circumscribed by declining rental income. Deterioration of the public housing stock further contributed to the social decline that has come to typify the public housing population.

A series of legislative and regulatory initiatives enacted in the 60's and 70's were designed to combat the financial ills facing most PHAs. The Housing and Urban Development Act of 1965 provided that PHAs could fund operating expenditures from other than rental receipts. The Turnkey amendments to the HUD Act allowed PHAs to contract with private developers to build new

housing developments. HUD implemented the Modernization program [MOD] in 1968 to provide federal funds for physical improvements to the existing public housing stock. The Brook Amendments to the 1937 Housing Act [1969, 1970, 1971] granted annual operating subsidies to local PHAs and required that rental charges to residents of public housing not constitute more than 25% of resident income. The 1974 Housing and Community Development Act expanded the level of federal operating subsidies and included measures designed to improve the financial viability of PHAs such as methods for guaranteeing prompt payment of rent. In 1974 HUD introduced the Target Projects Program [TPP] to provide federal monies for housing projects with particularly severe deterioration and/or socially related problems.

In spite of federal attempts to improve the financial health of PHAs, PHA inability to finance needed physical repairs to the public housing stock persists. Policies designed to improve the social ills prevalent among the public housing population have taken a backseat relative to solutions aimed at curing financial problems even though the resident social dilemma contributes to the lack of operating resources.

Resident management of public housing is viewed by many as a solution to the social and economic difficulties faced by public housing residents. The potential benefits to be derived from ceding management authority to residents include improved maintenance, less crime and vandalism, a more normative social environment and, most importantly, an increase in resident employment and economic prosperity.

During the last fifteen years resident management has been initiated in different forms with varying levels of resident involvement and management authority. Resident management initiatives range from the installation of a resident as manager of a public housing project to non-profit Resident Management Corporations [RMCs] that function as mini-housing authorities. However, there are only a handful of RMCs in the nation that have more or less comprehensive control over management operations at their respective projects.

To date there has been no exhaustive attempt to quantify the costs and benefits associated with resident management of public housing. The National Center for Neighborhood Enterprise [NCNE] has begun a nationwide effort to analyze existing RMCs in an attempt to devise training techniques, organizational structures and management strategies that will help ensure the success of any resident management endeavor. A cost-benefit analysis of existing resident management operations is to be incorporated in the NCNE nationwide study. Coopers and Lybrand has carried out the following cost-benefit analysis of resident management operations at Kenilworth Parkside, one of the largest public housing projects in the District of Columbia, as a first step in the NCNE analysis effort.

Kenilworth Parkside is a 464 unit public housing project located in southeast Washington D.C. From 1975 to 1982 the project was managed by Central City Property Management, a minority owned private management firm. Kenilworth Parkside residents, disgruntled over conditions at the project, petitioned Mayor Marion Barry in 1981 for permission to take over management operations at the site. Through the Mayor's direct intervention, technical assistance and training that would enable residents to take control of operations began in March 1981 and the Kenilworth Parkside Resident Management Corporation [KPRMC] was formed.

KPRMC began managing the project in January of 1982, three months before the completion of the formal training period. Since that time KPRMC has been responsible for developing the project's annual operating budget, rent collection, disbursements, maintenance operations, social service provision, and establishing and enforcing resident regulations at the site.

At its inception KPRMC agreed to forgo annual operating subsidies from the District's Department of Housing and Community Development [the National Capitol Housing Authority] in exchange for payment of the project's annual utility costs. This arrangement was similar to the one that existed between the Department of Housing and Community Development [DHCD] and Central City Management in the years prior to 1982. The annual utility subsidy is the only source of operating funds that KPRMC receives from the District government. KPRMC relies on rental income to fund operating costs [net of utility expenditures] at the development. KPRMC is entitled to an annual management fee in the form of 4% of annual rent collections. If an operating deficit is realized in the course of annual operations KPRMC is responsible for covering the loss from its management fees.

For the first four years of its existence KPRMC has had almost complete control of operating expenditures and revenues at the site. The administration of grant monies for the purpose of extraordinary maintenance and renovation did not become a factor in KPRMC operations until the last quarter of fiscal year 1985 when Kenilworth Parkside received a $13 million dollar grant from HUD for modernization of the complex. KPRMC will have a major hand in the administration of these funds. Yet for the period beginning in the second quarter of 1982 and ending with the last quarter of 1985 KPRMC was responsible solely for operating expenditures and revenues at the site. For this reason the present analysis is concerned with assessing the costs and benefits of resident management operations at Kenilworth Parkside on an operating basis only.

In the years since the inception of resident management operations at Kenilworth Parkside KPRMC has been credited with increasing rent collections, improving maintenance at the site, reducing the vacant unit rate, reducing vandalism, improving the availability of social services and forming private enterprise ventures which provide residents with employment opportunities.

At the onset of this analysis it was hoped that annual operating expenditure-revenue comparisons could be made between private and resident management operations at Kenilworth Parkside, between Kenilworth Parkside and the National Capitol Housing Authority [DHCD] as a whole based on average per unit per month [PUM] revenues and expenditures, and between Kenilworth Parkside and the Highlands, another housing project in the District with characteristics similar to those of Kenilworth. In addition an attempt would be made to quantify the dollar gains and losses resulting from a reduction in the level of Tenant Accounts Receivable [TARs], opportunity costs associated with vacant unit rates, the reduced crime rate at Kenilworth Parkside, and the savings resulting from a reduction in the number of Public Assistance Dependents [PAD] through employment by KPRMC or one of its enterprise ventures.

Unfortunately, lack of adequate data precluded this comprehensive approach. Much of the data required for the analysis, including the District's cost of implementing resident management at Kenilworth Parkside, could not be reconstructed from existing records without great difficulty.

Data that were available consisted of: quarterly HUD TAR reports for both Kenilworth Parkside and the Highlands for fiscal years 1979 through 1985; annual operating statements for Kenilworth Parkside for fiscal years 1982 through 1985; DHCD budgetary data as contained in D.C. proposed budgets for fiscal years 1982 through 1984; a Report on Audit of the PMA published by the HUD Inspector General's Office, August 1984; 148 of approximately 464 existing resident records on file at KPRMC; personnel information derived from KPRMC staff records; and crime data for Kenilworth Parkside and the surrounding neighborhood for calendar years 1981 through 1984 attained from the District of Columbia

Metropolitan Police Department.

From these data it was possible to ascertain the following:

1. PUM rent collections increased 77.1% at the project from F.Y. 1982 to F.Y. 1985. Authority-wide PUM rent collection increased by 11.4% during the same period.

2. The vacancy rate at Kenilworth Parkside decreased from an average of 18% prior to resident management to an average 5.4% during the years following resident management [a 70% decrease]. Vacancy rates for both the Highlands and the Authority as a whole increased over the same period.

3. At least 132 residents were removed from Public Assistance Dependency [PAD] through the direct intervention of KPRMC. These individuals were hired as KPRMC staff, employed in one of the KPRMC founded private enterprises or received a job through the efforts of KPRMC's employment specialist.

4. Total TARs at Kenilworth Parkside remained constant from 1983 to 1985 after having increased annually from 1979 to 1982. Total TARs at the Highlands increased markedly in every year from 1979 to 1985. Authority-wide TAR data is known only for 1983 and 1984, during which time TARs increased in nominal terms and as a percentage of annual rental income. From these observations it is known that KPRMC was more successful at reducing TARs than either Central City Management or the Authority. However, the data are not complete enough to isolate KPRMC monetary gains according to this indicator. To a certain extent the reduction in short-term TARs occuring at the site is reflected in the increased level of rental income noted in the analysis.

5. KPRMC incurred a surplus of rental income over operating expenditures [net of utility costs] in every year of its operation with the exception of F.Y. 1983. KPRMC covered the 1983 deficit out of its management fee in that year. Consequently, DHCD has not had to subsidize Kenilworth Parkside operating expenditures net of utility costs since residents assumed management control in 1982. Surpluses were realized at the project in spite of the fact that PUM expenditures for maintenance, social service provision, and security increased in the years following resident management.

6. Arson and burglary decreased annually at Kenilworth from 1982 onward in both nominal terms and as a percentage of arson and burglary crimes committed in the surrounding neighborhood. Total felony crimes however, did not decrease. The reduction in certain types of crime at the complex was not considered statistically significant and therefore will not be included in this analysis.

These and other available data were deemed sufficient to carry out a cost-benefit analysis. Using this approach it will be possible to examine whether the benefits of resident management at Kenilworth Parkside exceed DHCD's cost to implement and support KPRMC.

It is possible to examine the benefits of resident management on a number of different levels. Benefits might be measured on a societal level in terms of the increase in the marginal product of labor resulting from gainful employment for residents previously on welfare. Benefits may be analyzed from the resident's perspective only based upon measures of higher income and the increased level of community service provided at the site since the inception of resident management. In this instance however, an attempt will be made to target only those benefits accruing to the District government as a result of resident management operations at the project.

It has been noted previously that DHCD has not incurred any direct operating expenses net of utility costs at Kenilworth Parkside since residents assumed control of the project. DHCD subsidized the project's annual energy costs under both private and resident management. DHCD incurs administrative overhead costs and certain capital equipment replacement costs associated with KPRMC operations but there is no reason to assume these costs are higher in real terms than those expended by DHCD to support the project under Central City Management, especially in light of data which clearly indicate that resident management has been more efficient and effective than private management at the project.

The analysis therefore assumes that the City's cost to implement resident management, including resident training and DHCD staff assistance during the transition to resident management, represents the only additional cost incurred by the city over and above those costs that would have been realized had Central City Property Management continued managing the site.

At this juncture we do not know what the District's cost of implementing resident management was. The analysis will proceed by identifying the benefits of resident management, presenting these benefits in net present value [F.Y.1982], and asking whether it is reasonable to assume that the costs of implementing resident management at the site could have exceeded these discounted benefits.

The benefits resulting from resident management operations at Kenilworth Parkside from F.Y. 1982 through F.Y. 1985 that could, a] be identified as due solely to the effects of resident management based upon available data, and b] be assigned precise dollar values, include:

1. PUM rent receipts realized at the project in excess of average Authority PUM rent receipts, adjusted for the actual number of occupied units at the site.

2. The increase in project income resulting from a reduction in the vacancy rate.
3. The reduction in PAD costs to the District government resulting from removal of residents from the PAD roles through the direct intervention of KPRMC or one of its private enterprises.
4. The increase in District income tax payments associated with converting persons from PAD to gainful employment.
5. The higher level of public service provided at the site resulting from a net increase in the number of persons working at the project. Unlike benefit streams 1 through 4 above, the increased level of service provision provided at the project does not represent an actual dollar return to the District government. It does however, constitute a quantifiable benefit occurring as a direct result of resident management operations at the project and is therefore included in the analysis.

Benefit streams 1 and 2 above represent an actual increase in revenues generated at the project. These revenues, for the most part, were used to fund additional staff positions and to subsidize KPRMC enterprises that provide service to Kenilworth Parkside residents. In short, benefit streams 1 and 2 were reinvested in the project to yield the benefits realized in the form of lower PAD expenditures, higher tax revenues, and increased service provision at the project [benefit streams 3, 4, and 5]. To include all 5 benefit streams in the analysis would therefore be double-counting benefits. For this reason, the increase in project revenues resulting from higher rent collections and lower vacancy rates were not included in the benefit calculations. They are however, detailed in the following discussion.

The underlying assumptions used to isolate each of the 5 benefit streams identified previously are summarized as follows:

PUM rent receipts

As noted, PUM rent collections increased at Kenilworth Parkside by 77.1% from 1982 to 1985. Precise PUM rent collection figures for the project prior to 1982 are currently unavailable. However, it is known that PUM rent collections at the project were less than the Authority-wide average in 1982. In addition, the exceedingly high level of TARs at Kenilworth Parkside observed in the HUD quarterly TAR reports from 1979 to 1982 indicate that rent collections at the site were significantly below their 1982 level during these years. There is no reason to assume that this trend of low PUM rent collections would not have continued into the eighties if not for the advent of resident management. However, in the absence of data to the contrary it is assumed here that PUM rent receipts at Kenilworth Parkside would have equaled the Authority-wide average from 1982 onward if Central City Management had continued to manage the site.

The value of additional PUM rent receipts at the project for F.Y. 1983 through F.Y. 1985 is calculated by multiplying the number of occupied units at Kenilworth Parkside by the difference between PUM rental income for the Authority and actual PUM rental income occurring at Kenilworth Parkside [see line 1, table 1, p. xvii].

Increased income resulting from lower project vacancy rates

The vacancy rate at Kenilworth Parkside decreased by 70%

following resident control of management operations at the site. Vacancy rates for the Authority as a whole are known to have increased from 1982 to 1985 and vacancy rates at the Highlands have increased annually since 1979. Given that vacancy rates for both the Authority and the Highlands have increased during the period under scrutiny there is no reason to assume that the vacancy rate at Kenilworth would have improved markedly had Central City Property Management continued managing the site. Nevertheless it is assumed that the Authority-wide vacancy rate would have prevailed at the project in the absence of resident management [a conservative assumption]. The increase in project income resulting from fewer vacancies is derived by calculating the difference between rental income forgone due to the number of vacant units at the site and the revenue loss that would have been incurred if the if the Authority-wide vacancy rate had prevailed there. Average Authority daily rent collection figures were applied to these two vacancy rates to arrive at the annual savings listed on line 2, table 1.

Removal of residents from the PAD roles

A minimum of 132 Kenilworth Parkside residents ceased relying on Public Assistance for their annual income through the direct intervention of KPRMC from 1982 through 1985. Of these individuals, 10 were hired as KPRMC staff, 92 received jobs in KPRMC private enterprise ventures, and 30 received jobs through the KPRMC employment specialist. Only those residents who could be identified as having received PAD income [primarily Aid for Families with Dependent Children] prior to employment and who gained full-time employment at or above minimum wage were included in the benefit calculations. Residents receiving part-time employment were not incorporated in the analysis in spite of the fact that such employment would result in a reduction of welfare assistance for these persons. The estimate of reduced welfare assitance for Kenilworth Parkside residents receiving employment through the efforts of KPRMC is therefore a conservative one.

Approximate and/or precise dates of employment were used to categorized these 132 persons according to the quarter of the fiscal year in which they gained employment. The number of residents removed from the welfare roles annually was then adjusted downward by 15% on the basis that 15% of welfare recipients can be expected to drop from the roles in any given year of their own accord. The annual reduction in welfare costs for the remaining residents was calculated by prorating PAD annual income for a family of four according to the number of full quarters that each resident was employed. PAD income for a family of four was used in this instance after a survey of resident records revealed that the vast majority of Kenilworth Parkside families consist of a single female head-of-household with 2 to 4 dependents.

Since two-thirds of total District welfare outlays are contributed by the federal government, one-third of the annual reduction in PAD expenditures was then used to identify the approximate savings to the District that resulted from removing these

residents from the welfare roles. The annual reduction in District welfare costs using this approach is provided on line 3, Table 1.

## Increased income tax revenues

Hourly pay scales for the 132 residents who gained employment from 1982 onward ranged from $3.95 per hour to $8.00 per hour. In light of these observations an average per person annual income figure was calculated based upon full-time work at a $5.00 per hour wage rate. Under this assumption average per person annual income amounted to $10,400 annually. This gross annual income figure was adjusted to net taxable income of $6,000 assuming a family of four with four exemptions using the standard deduction. A District tax rate of 5% was applied to net taxable income to derive additional income tax revenues. This tax rate is consistent with District tax rates levied from 1983 to 1985. Given these assumptions a family of four making $10,400 annually would pay $300 in taxes to the District of Columbia. The analysis further assumes that income earned in only a portion of the year would not reach taxable levels. Thus, the amount of total tax revenues resulting from employment of Kenilworth Parkside residents is likely to be understated. The increase in tax receipts according to this approach is provided on line 4 of table 1.

## Increased level of public service at the project

KPRMC has been responsible for increasing the level of public service provided at the project since 1982. Expanded service provision has been accomplished through increasing the number of staff working at the site and by creating private enterprises that contribute to the social and economic welfare of project residents. By assumption, these individuals provide service at the site that would have been provided by DHCD in the absence of resident management.

Eighty-nine full-time employees and 48 part-time employees could be identified as providing a public service to Kenilworth Parkside residents [all employees are also residents]. Twelve of these individuals were employed as KPRMC staff and the remaining 125 were employed in one of the following KPRMC enterprises: the clinic, the daycare center[s], the screen door shop [provides on-site door repair], the janitorial-maintenance service, or the employment center.

Staff maintained at the site under Central City Property Management was then subtracted from the number of full-time staff working at the project under resident management to derive the net increase in the number of employees at the site.

The monetary value of the increased level of service provision was calculated by prorating average annual income according to the number of full-quarters worked by each resident over the four year period under study. By assumption, employee income represents the increase in the marginal product of labor at the project and likewise, the amount of money the District government would have spent to provide an enhanced level of public

rvice at Kenilworth Parkside. These figures are listed as 'quantifiable social benefits' on line 5 of table 1.

Table 1 on the following page lists the net present value of District benefits derived from resident management at Kenilworth Parkside as well as the nominal value of annual benefits, for fiscal years 1982 through 1985. The increased level of revenues generated at the site [benefit streams 1 and 2] are listed but are not included in the total benefits accruing to the District government. Benefits were adjusted to net present value using the District government's interest cost on Tax Revenue Anticipation Notes [TRANS]. The use of this discount rate is appropriate given that DHCD must borrow from the District government to cover operating deficits when they arise. The District government, in turn, issues TRANS to cover its own operating shortfalls. The discount rate used in the analysis was 6.74%, the highest interest cost for TRANS incurred by the District in any of the years 1983 to 1985. As the table reveals, the net present value of District benefits generated by KPRMC operations from 1982 to 1985 was $1,978,669.

It is instructive to pursue the analysis further by estimating the 1982 net present value of benefits that will have accrued to the District government over a ten year horizon. In order to project these benefits it became necessary to make an assumption about the volume of benefits that are likely to occur at the site. The following guidelines for projecting future

### Table 1
### Summary of District benefit flows for resident management operations at Kenilworth Parkside for fiscal years 1982 to 1985.

| Benefit streams | Net present value in F.Y. 1982 | Nominal dollar benefits | | | |
|---|---|---|---|---|---|
| | | 1982 | 1983 | 1984 | 1985 |
| Project revenues: | | | | | |
| 1. Increased rent receipts | $421,991 | 0 | 48,651 | 188,384 | 256,686 |
| 2. Income resulting from lower project vacancy rate | 145,399 | 29,596 | 40,953 | 54,619 | 35,872 |
| Total increase in project revenues | $567,390 | 29,596 | 89,604 | 243,003 | 292,558 |
| Benefits accrued to District government: | | | | | |
| Monetary benefits: | | | | | |
| 3. Reduction in PAD expenditures | $326,260 | 14,062 | 67,783 | 119,923 | 174,441 |
| 4. Increased income tax revenue | 51,246 | 0 | 11,100 | 20,400 | 27,900 |
| Quantifiable social benefits: | | | | | |
| 5. Increased service provision at site | 1,601,163 | 51,760 | 377,440 | 651,160 | 759,200 |
| Total benefits to the District government | $1,978,669 | 65,822 | 456,323 | 791,483 | 961,541 |

benefit streams were employed to complete this phase of the analysis:

1. The forecast assumes that Kenilworth Parkside will not undergo major renovation from F.Y. 1986 to F.Y. 1988. The forecast therefore attempts to identify the potential gains resulting from resident management on an operating basis exclusive of the effects of the increase in resident turnover that will doubtless occur due to renovation.

2. The expected rate of inflation for fiscal years 1986 through 1991 was established at 4.5%.
3. Increased rent receipts and increased project income resulting from a reduction in the vacant unit rate are assumed to increase at the annual rate of inflation from 1986 to 1991. The forecast thus assumes no real increase in either of these indicators.
4. The reduction in welfare costs to the District government is assumed to increase at an annual rate of inflation of three percent from 1985 to 1991. The implication here is that no net change occurs in the number of residents removed from the welfare roles through the direct intervention of KPRMC for F.Y. 1986 through F.Y. 1991 and that the average level of District PAD expenditures for a family of four increases at less than the expected 4.5% annual rate of inflation during these years. This assumption is highly conservative in view of the fact that 29 residents were removed from the welfare roles through the efforts of KPRMC in the first two quarters of F.Y. 1986 alone.
5. The benefits flowing from higher District income taxes and the increased level of service provision at the site are assumed to increase at an annual rate of inflation of 4.5% for F.Y. 1985 to 1991. This assumption implies no net change in the number of residents removed from the welfare roles or in the number of residents working at the site and that the income of persons employed as of 1985 keeps pace with inflation.

These assumptions were used to estimate the level of District benefits realized from F.Y. 1982 to F.Y. 1991. The net present value of benefits spanning this ten year period was calculated using a 9% discount rate, an estimate of the District's long term interest cost on TRANS. For the ten-year time horizon, the net present value of District benefits amounts to $5,713,722 as illustrated in Table 2 on the following page.

Having isolated measurable benefits resulting from KPRMC operations at the project under a series of conservative assumptions and over two separate time horizons the question remains

HORIZONS

"We help each other," says Kimi Gray, who helped transform a once run-down Washington, D.C., project

# When tenants take over

## Public-housing projects get a new lease on life

■ Just a few years ago, tenants at the Kenilworth-Parkside public-housing project in Washington, D.C., were plagued by arsonists, junkies and thieves, their roofs were caving in and they had endured three years without heat or hot water.

Kimi Gray thought she and other tenants could do a better job of managing the project than the local housing authority—and she was right.

Since tenants began running the project in 1982, something close to a miracle has occurred. Repairs have been made, utilities restored, and crime, teenage pregnancy and welfare dependency have dropped substantially. At the same time, rental collections have risen 105 percent, while administrative costs are 60 percent less than those of the housing agency's subcontractor.

"By empowering residents, we've changed attitudes," says Gray, a dynamic woman who came to the project in 1966 with five children, no job and no husband. The onetime welfare recipient now heads the private corporation that manages the 464-unit, low-rise complex.

Kenilworth-Parkside still has some of the grim look of "the projects," but the streets are clean and there are touches of pride everywhere—mowed lawns, barbecue grills and flowers. There are small businesses and services, too, that together employ about 140 residents. Among them are a screen-door shop, a day-care center and a food co-op. "Poor people," says Gray, "have the same dreams as everyone else."

Karen January, a 34-year-old mother of four, is among the dreamers. After 14 years on welfare, she enrolled last year in a training program for word processing and now works for the tenant corporation as a secretary. "Kimi wants her residents to get off welfare and out on their own," she says. Welfare dependency has dropped at least 50 percent since tenants took over.

### Where police feared to go

The achievements at Kenilworth-Parkside are not unique. There are at least 14 other projects around the nation where residents have taken over some or all operating responsibilities, turning the forbidding concrete warrens into something livable:

- At the B. W. Cooper project in New Orleans, tenant managers reduced a backlog of 3,000 requests for maintenance to zero.
- Vacant apartments—sometimes occupied by vagrants—at the A. Harry Moore project in Jersey City were cut from 20 percent to 2 percent of the units after tenants took over in 1978. Crime was slashed from three times the citywide average to below the average.
- The Bromley-Heath project in Boston had 4,000 broken windows in pre-tenant-management days, and even the police were afraid to enter the area. Now, the windows are repaired and a community patrol has helped cut robbery 77 percent. "We didn't have book knowledge, but we had a gut feeling for what had to be done," recalls Anna Mae Cole, head of the tenant corporation.

These sorts of benefits have been confirmed by two recent studies. The Kenilworth-Parkside project has provided the local government $2 million in net benefits, concludes an analysis by the Coopers & Lybrand accounting firm. And a Chicago civic group that reviewed 15 projects launched in the U.S. since 1971 found that most worked and only five had failed.

The successes come in two arenas that have stumped policy experts: Deteriorating public housing and the broader social problems of the underclass.

Successful tenant-management corporations share common features. They set tough standards for residents, levy fines for irresponsible behavior, screen applicants, have strong leadership and resident support, and launch early cleanup campaigns. "When people are

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given responsibility, they can set standards for themselves," says Robert Woodson, president of the National Center for Neighborhood Enterprise. The tenant groups also usually get help from local housing authorities.

At Boston's Bromley-Heath, tenant cooperation is crucial. Security-patrol supervisor Eduardo Henry says, "If something happens, somebody always tells us who did it. We go and get them."

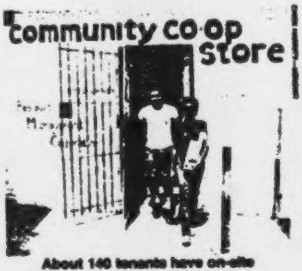
The mere fact that tenant managers live at the site increases accountability and responsiveness. "When my maintenance man doesn't fix the boiler in the winters, he gets cold, too," says Gray.

**Sowing seeds of hope**

These grass-roots achievements have generated strong political interest. In June, the House passed by a 419-to-1 margin a bill that provides $1.5 million in technical assistance to 15 projects.

Despite the bipartisan support, skeptics question the evidence of success. Staffers with the National Association of Housing and Redevelopment Officials point to the mixed results of a three-year, seven-site demonstration launched by the Department of Housing and Urban Development (HUD) and the Ford Foundation in 1976. Although four of the projects are successful, three of the sites ultimately dropped out of the program, largely because of disorganized tenants and uncooperative housing authorities.

Some observers doubt that tenant management can be applied to most of the nation's 10,000 public-housing projects. Even some sympathizers sound cautionary notes. Clyde McHenry, a former public-housing executive who has trained resident-management groups, says that many tenants may not be interested in running their buildings. Others point to the high costs to local public-housing agencies of training and technical assistance, usually at least $100,000 per year.



About 140 tenants have on-site jobs at Kenilworth-Parkside

In addition, some liberals are worried that tenant management is the first step in a conservative plan to sell off all public housing—without building replacement units for thousands of needy families. The House has passed a controversial measure, sponsored by Representative Jack Kemp (R-N.Y.), to sell public housing at a 75 percent discount to tenants, with no money down. But chances of Senate passage are considered poor. HUD also has launched a program to sell 2,000 of the nation's 1.3 million public-housing units to tenants.

In spite of the skepticism and concern, interest in tenant management is growing. HUD has proposed regulations urging local housing authorities to sign management contracts with tenant groups and to use federal funds to train them. Proponents expect an additional 25 projects to become tenant run in the next two years. "In some cases, tenants definitely can manage projects better than the local housing authority," says HUD official Ken Beirne.

President Reagan hails the approach, too. He said last year that "the brave pioneers of resident management are sowing the seeds of hope and possibility in cities across our nation."

The sense of hope and determination is very much alive at places such as Kenilworth-Parkside, where the tenant-management firm last year won a $13.5 million rehabilitation grant from HUD. Supervising the work is Michael Price, 30, a project resident who dropped out of high school in 1974. He once dreamed of becoming an architectural draftsman, but Kimi Gray asked him, "Why not be an architect?" With her encouragement, he earned his high-school diploma and, after a few false starts, graduated two years ago from Howard University with a degree in architecture.

Says Price: "There's a strong feeling of satisfaction to come back here to make my home a better place." ■

by Art Levine with Dan Collins

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PEER PRESSURE AT WORK

## Beating blight in St. Louis

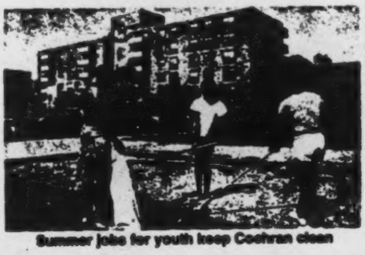
St. Louis

Ten years ago, motorists routinely ignored the stop sign in the 1200 block of North Ninth Street because gangs from the Cochran public-housing project would swarm over stopped cars and rob and assault the occupants. Unable to control the gangs, city officials removed the sign.

Today, the sign is back and the gangs are gone. Cochran has become a model of what tenant-managed public housing can be.

When the residents took over in 1976, 250 of the more than 800 units stood vacant. Now, there are no empty units, says Bertha Gilkey, head of the tenant-management corporation.

All the buildings have been renovated, and townhouses, playgrounds and a community center were built. Large families in high-rises were moved to the bottom three floors to cut elevator traffic. Residents in each building elect a captain to assure that rules are obeyed, and every floor has a monitor to see that common areas are well kept. "If there's graffiti, a hole in the wall or a broken window—and we can't find out who did it—we fine the whole floor," says Gilkey. "It's peer pressure."



Summer jobs for youth keep Cochran clean

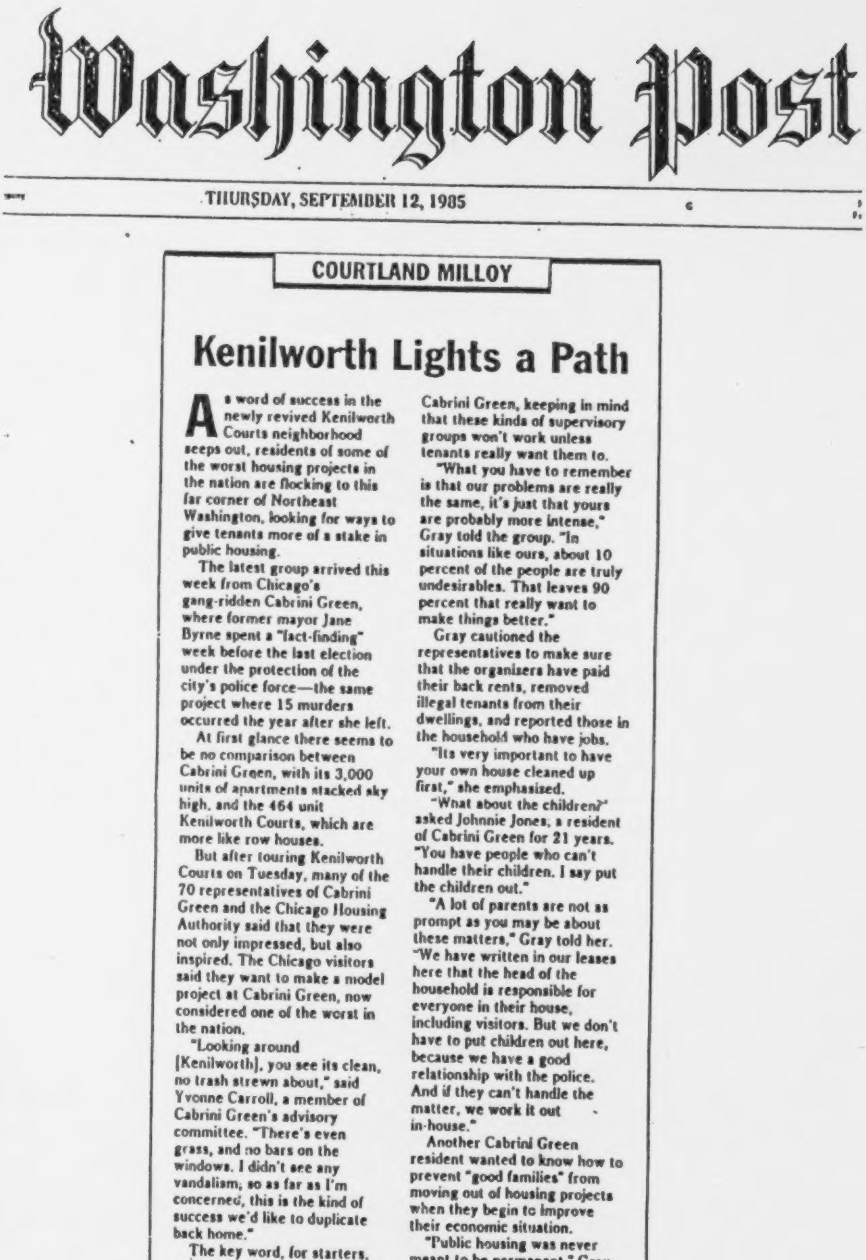
Each new tenant gets a thick book of rules and must attend an orientation session and agree to periodic apartment inspections.

The results are visible. Corridors, stairwells and elevators are free of graffiti, trash and loiterers. Laundry rooms gleam.

Residents say the turnaround has been phenomenal. "There were shoot-outs, drug pushers in the hallways, robberies," says building captain Nancy Sisley. "But we knew who the troublemakers were, and let them know we wouldn't stand for it."

In 10 years of tenant management, only 26 families have been evicted. Says Gilkey: "The secret of Cochran isn't renovation, it's re-education. We changed people's attitudes."

by Michael Bosc



Washington Post

THURSDAY, SEPTEMBER 12, 1985

**COURTLAND MILLOY**

# Kenilworth Lights a Path

As word of success in the newly revived Kenilworth Courts neighborhood seeps out, residents of some of the worst housing projects in the nation are flocking to this far corner of Northeast Washington, looking for ways to give tenants more of a stake in public housing.

The latest group arrived this week from Chicago's gang-ridden Cabrini Green, where former mayor Jane Byrne spent a "fact-finding" week before the last election under the protection of the city's police force—the same project where 15 murders occurred the year after she left.

At first glance there seems to be no comparison between Cabrini Green, with its 3,000 units of apartments stacked sky high, and the 464 unit Kenilworth Courts, which are more like row houses.

But after touring Kenilworth Courts on Tuesday, many of the 70 representatives of Cabrini Green and the Chicago Housing Authority said that they were not only impressed, but also inspired. The Chicago visitors said they want to make a model project at Cabrini Green, now considered one of the worst in the nation.

"Looking around [Kenilworth], you see its clean, no trash strewn about," said Yvonne Carroll, a member of Cabrini Green's advisory committee. "There's even grass, and no bars on the windows. I didn't see any vandalism; so as far as I'm concerned, this is the kind of success we'd like to duplicate back home."

The key word, for starters, seems to be "pride," something that is hard to instill in public housing tenants who often are crammed on top of one another and suffer from all the ills that accompany poverty.

But, using sanctions and incentives, resident managers at Kenilworth Courts have shown that a model project can be partially achieved.

Kimi Gray, chief of Kenilworth's tenant management experiment, advised the visitors to organize strong resident councils at Cabrini Green, keeping in mind that these kinds of supervisory groups won't work unless tenants really want them to.

"What you have to remember is that our problems are really the same, it's just that yours are probably more intense," Gray told the group. "In situations like ours, about 10 percent of the people are truly undesirables. That leaves 90 percent that really want to make things better."

Gray cautioned the representatives to make sure that the organizers have paid their back rents, removed illegal tenants from their dwellings, and reported those in the household who have jobs.

"Its very important to have your own house cleaned up first," she emphasized.

"What about the children?" asked Johnnie Jones, a resident of Cabrini Green for 21 years. "You have people who can't handle their children. I say put the children out."

"A lot of parents are not as prompt as you may be about these matters," Gray told her. "We have written in our leases here that the head of the household is responsible for everyone in their house, including visitors. But we don't have to put children out here, because we have a good relationship with the police. And if they can't handle the matter, we work it out in-house."

Another Cabrini Green resident wanted to know how to prevent "good families" from moving out of housing projects when they begin to improve their economic situation.

"Public housing was never meant to be permanent," Gray said. "But the shortage of low-income housing means that a lot of people simply don't have any place else to go."

It won't be easy to turn Cabrini Green into another Kenilworth Courts, if it is possible at all. But, at least, these Chicago residents have had an opportunity to talk with someone who has been involved in a transformation of sorts and appears to know what she's talking about.

And that's a start in the right direction.

Chicago Tribune

FOUNDED June 10, 1847

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10 Section 1 ☐ Wednesday, May 28, 1986

# Let residents run public housing

Chicago Housing Authority officials have announced plans to give residents of the low-rise LeClaire Courts public housing project a chance to manage their apartment buildings. The happy results of similar experiments in other cities show the chances are good that the LeClaire residents will do a better job than the CHA, but only if they are given a real chance.

Details of how the LeClaire Court program will work have yet to be spelled out. But if the program is going to prove itself, CHA officials should grant true managerial responsibilities to its tenants. Relinquishing power over hundreds of thousands of dollars in work orders and contractors can be the most difficult step for public housing officials to make. But experience shows that tenant management does not get a fair chance until day-to-day operating decisions are turned over to the people who have to live with the results.

Residents of one St. Louis development saved their low- and medium-rise buildings from planned demolition. Tenants of a large Boston development brought theirs back from bankruptcy. Similar stories resulted from tenant management turnovers in Washington, D.C., New Orleans and Louisville.

Once their own leadership and energies were channeled into managerial responsibilities, the tenants did a more thorough job of screening prospective tenants and enforcing rules than the housing authorities. They also improved security, repopulated abandoned apartments, made architectural improvements and beautified the grounds.

LeClaire residents have spent the last three years organizing, researching and training themselves for this opportunity. They have earned a chance to prove themselves and to raise the hopes of public housing residents everywhere.

# Chicagoland

Chicago Tribune Monday, June 30, 1986

Tribune photo by Ovie Carter

Irene Johnson, chairman of the LeClaire Courts Resident Management Corp., talks with young people hired by the city to clean up the 44-acre Chicago Housing Authority project near Cicero Avenue and the Stevenson Expressway.

# Learning to manage on their own

## CHA project's tenants start training to double as landlords

By Patrick Reardon

With a great deal of excitement and a trace of trepidation, residents of the LeClaire Courts public housing complex on the Southwest Side have begun a 30-month training program that will enable them to manage—and someday possibly buy—their low-rise buildings.

The thought of the heavy responsibilities that residents eventually will be taking on is, at times, daunting, says Irene Johnson, chairwoman of the 6-month-old LeClaire Courts Resident Management Corp.

But she adds, "If we get the proper training, we can handle it."

The idea of tenant management of public housing developments has been discussed in government circles over the last decade, but its record has been spotty. In St. Louis, for example, four attempts were made in the mid-1970s, but only two succeeded.

The move to tenant management at LeClaire Courts, approved May 27 by the Chicago Housing Authority, is the first in Chicago, and it is taking place in one of the CHA's most stable developments.

LeClaire Courts, completed in 1954 at a cost of $9.4 million, comprises 104 two-story brick buildings on 44 acres southwest of the intersection of Cicero Avenue and the Stevenson Expressway. About 2,550 people live in the project's 615 apartments, and the median family income is $7,140 annually, one of the highest in the CHA.

For the last three years, LeClaire residents have worked to get the plan going, but full tenant management won't come until mid-1988 at the earliest, said Vincent Lewis, who will conduct the lengthy training program.

Lewis is a Washington-based consultant under contract with the National Center for Neighborhood Enterprise, which has received a $1.9 million grant from Amoco Corp. to guide six tenant management corporations around the nation and to help six others, including LeClaire Courts, get started.

Training, which began last Tuesday, will focus initially on organizing the community and the resident management board, Lewis said.

That process is expected to take about six months, and once completed the residents will negotiate a contract with the CHA for dual management of the project for about 18 months, Lewis said.

At first, the board members will be trained in the fundamentals of management and will try to put what they learn into practice by setting up a make-believe service corporation, such as a day-care center. At the next stage, when residents study real estate management, they will set up and try to run a make-believe real estate corporation.

Only after this training will the residents attempt to run the project by themselves, Lewis said. Even then, the training won't be finished, he said, noting that real estate development and home ownership will be the final phase of the training.

Lewis said one important element in the training is to get residents "to focus on the fact that this is a business; we're trying to say: Don't forget about the profit."

Another essential ingredient is to make the training program permanent so that new resident leaders are continually groomed, he said.

The CHA has set aside $1 million for renovating the project, and the residents will have a role in deciding how that money is spent. But that will pay only for limited improvements to about half of the apartments in the development, Johnson said.

Ultimately, one way of raising money is

Continued on page 2

## Tenants

Continued from page 1

likely to be raising the rents, Johnson said.

Federal regulations require that public housing residents be charged 30 percent of their income in rent, but Johnson said that tends to keep people from trying to earn more money.

Instead, fair market rents might be charged after improvements have been made, she and Lewis said.

So far, Johnson said, there has been strong—but not unanimous—support from the residents for the experiment.

"We've got 75 or 80 percent of the residents," she said. "We still have a few people who are skeptical, who don't trust what's going on."

*What one can do*

# From a jungle, to a neighborhood

By Neal Peirce

ST. LOUIS — "I've lived in Cochran Gardens since I was 11. My mother had 16 children in three bedrooms. I witnessed public housing go from the best to the worst. As it became predominantly black, all the services disappeared. What was a neighborhood became a jungle. We had killings, murders, stealing. Dope pushers ran rampant. When you walked into the elevators you would walk into pools of urine."

Bertha Gilkey, the 35-year-old founder-inspirer-president of the Cochran Gardens Tenant Management Corp., is the epitome of what many presume black women in public-housing cannot be: organized, eloquent, charismatic — and commanding of respect.

The tenants, led by Gilkey, were shocked six years ago when business leaders said Cochran Gardens' prime location beside downtown St. Louis must be cleared for shiny high-income offices and housing. "After I cried for about five minutes," says Gilkey, "I regained my composure, and told them very clearly, we're not going anywhere. We were here through the debris, here through the pollution, we have endured rats. And now we are going to be here to enjoy the good things that downtown will have."

Gilkey and friends had a radical cure for the late 1940s-vintage project, so badly mismanaged that 250 of its 675 units were vacant. They — the tenants — would take over, plan for total revamping, collect the rents, enforce discipline. "The housing authority thought we were crazy," Gilkey recalls. "They had all the professionals. They'd been managing, and it was a disaster. So how the world could poor public-housing tenants turn around such a clearly horrible real-estate problem?"

Visit Cochran Gardens today and you'll find the answer: very well. The tenant crew began with its own, unpaid cleanup of filthy grounds and hallways. Then, through sheer perseverance, charm and obstinacy, it importuned millions of rehabilitation dollars from foundations and city and federal governments.

Today, instead of the former "jungle," the place looks like a middle-class apartment complex. Trash and graffiti have vanished. The lawns are well tended. Apartment interiors are well appointed. There's a sophisticated security system to keep marauders at bay.

The high-rise towers have endured radical surgery, with the number of units sharply reduced. All large families have been placed in ground floor units with separate townhouse-style entrances.

Local hard-core unemployed youth obtained jobs — and then training — on the construction crews. The labor unions, Gilkey notes, didn't object, because they were "terrified" at the thought of entering public housing.

"But we didn't just change the physical design of the buildings — we changed the attitudes and behavior of the people," she says. A new ethic evolved: that accepted behavior is to supervise one's own children, to help fight vandalizing or drug selling, to try hard to get off welfare.

Tenants sweep their own corridors under supervision of floor monitors. There's a daily curfew. Potential new residents undergo tough screening, including home visits. If accepted, there's a full two-day orientation course.

For these sacrifices there's a payoff — a decent, safe place to live, less physical danger, and a chance at a job. Tapping government and foundation funds, Gilkey and her friends have set up an array of services — each employing Cochran Gardens residents. There are day-care centers (vital for female household heads), a $1.5 million community center, a full health clinic, a catering service, a janitorial firm and, in the works, a shopping center.

In best capitalistic style, the Cochran Gardens group is making money as development partner and manager of hundreds of new public and other low-income housing units. The project itself has zero renter turnover, and 100 percent rent collections.

Sterling performance, in fact, has been proven the rule rather than the exception in tenant-management experiments across the United States. Behind each, one often finds another human dynamo like Gilkey: a Kimi Gray in Washington's Kenilworth Gardens, Mildred Hailey at Bromley-Heath in Boston, Vini Jackson at Calliope in New Orleans, the Rev. Robert Blount in Jersey City's A. Harry Moore and Montgomery Gardens.

But friends and mentors of the movement, such as Cicero Wilson of the American Enterprise Institute, insist that charismatic leadership isn't always necessary. The bigger obstacle lies in foot-dragging public-housing authorities with a plantation mentality toward their untrained housing "clients."

Indeed, in the face of severe public-housing shortages (one city has a 25-year waiting list), only tenants may be able to rescue projects caught in decline and headed toward abandonment. Tenant managers, on the site 24 hours a day, outshine government-appointed managers in enforcing discipline and staying on top of maintenance problems.

Says Gilkey, who's now consulting for neophyte tenant management groups in Cleveland and other cities: "Cochran Gardens has to be a model for the country. It is truly self-help. It is truly poor people, predominantly women, who have taken a jungle and turned it into a neighborhood."

*(Neal Peirce is a nationally syndicated columnist who often writes on problems of the cities.)*

The Philadelphia Inquirer
Op-ed
Monday, Sept. 10, 1984
11-A

whether these benefits are likely to exceed the cost of implementing resident management at the site.

There is only one frame of reference that provides an indication of the magnitude of these costs. In 1976 the Manpower Demonstration Research Corporation (MDRC) began a national experiment in resident management. Resident groups that participated in the experiment were provided with extensive training prior to assuming control of their respective projects. Funds were also expended to cover extraordinary maintenance at each project and to maintain a PHA staff complement during the course of the three year demonstration. The MDRC experiment therefore involved much more extensive funding of resident management initiatives than was provided at Kenilworth Parkside.

The mean value of these costs for the entire 3 Year period, measured on a per unit basis, was $1,537 in 1976 dollars. Adjusting this figure for inflation using the CPI for the Washington D.C. area and multiplying the result by the number of housing units at Kenilworth Parkside yields $1,193,337 in 1982 dollars.

This figure represents a ball park estimate of the costs that would have been incurred by the District had the MDRC study design been utilized to establish and maintain resident management at Kenilworth Parkside. It is an extreme overestimate of the true costs of establishing KPRMC for reasons already cited. Nevertheless this figure is provided as a frame of reference to substantiate the claim that the benefits identified in the cours

Table 2: Summary of District benefit flows for resident management operations at Kenilworth Parkside for fiscal years 1982 through 1991.

| Benefit streams | Net present value in F.Y. 1982 | Nominal dollar benefits | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
| Project revenues: | | | | | | | | | | | |
| 1. Increased rent receipts | $1,430,160 | 0 | 48,651 | 188,384 | 256,686 | 268,237 | 280,308 | 292,921 | 306,103 | 319,877 | 334,273 |
| 2. Income resulting from lower project vacancy rate | 284,608 | 29,396 | 40,953 | 54,619 | 35,872 | 37,486 | 39,173 | 40,936 | 42,778 | 44,703 | 46,713 |
| Total increase in project revenues | $1,714,768 | 29,396 | 89,604 | 243,003 | 292,558 | 305,723 | 319,481 | 333,857 | 348,881 | 364,580 | 380,987 |
| Benefits accrued to District government: | | | | | | | | | | | |
| Monetary benefits: | | | | | | | | | | | |
| 3. Reduction in PAD expenditures | 977,903 | 14,062 | 67,783 | 119,923 | 174,441 | 179,674 | 185,064 | 190,616 | 196,335 | 202,223 | 208,292 |
| 4. Increased income tax revenue | 160,717 | 0 | 11,180 | 20,400 | 27,900 | 29,156 | 30,667 | 31,830 | 33,222 | 34,768 | 36,333 |
| Quantifiable social benefits: | | | | | | | | | | | |
| 5. Increased service provision at site | 4,575,102 | 51,760 | 377,350 | 651,160 | 759,200 | 793,364 | 829,065 | 866,373 | 905,300 | 946,101 | 988,676 |
| Total benefits to the District government | $5,713,722 | 65,822 | 456,313 | 791,483 | 961,541 | 1,002,194 | 1,044,396 | 1,088,820 | 1,134,966 | 1,183,094 | 1,233,300 |

of this analysis are greatly in excess of the District's cost to implement resident management at Kenilworth Parkside. Using this figure as the District's 'cost' of resident management the following net benefits can be identified:

Four year horizon:

$785,332 in net benefits to the District

Ten year horizon:

$4,520,385 in net benefits to the District

A sensitivity analysis was undertaken to determine the discount rate at which the present value of these net benefits equals zero. The results of this analysis revealed that the discount rate for the four year horizon must exceed 37.05% and for the ten year horizon, 64.8% before net benefits reduce to zero.

Based upon a set of conservative assumptions regarding the level of benefits resulting from KPRMC operations and a liberal estimate of the costs associated with implementing resident management at the complex, resident management at Kenilworth Parkside results in positive net benefits to the District government regardless of the time frame used for the analysis. Resident management in the form it exists at Kenilworth Parkside has been shown to be more cost-beneficial to the District government than private management at the site.

THE CHRISTIAN SCIENCE MONITOR

COPYRIGHT © 1985 THE CHRISTIAN SCIENCE PUBLISHING SOCIETY [illegible] VOL. [illegible] AN INTERNATIONAL DAILY NEWSPAPER TUESDAY, SEPTEMBER 17, 1985 R [illegible] Canadian

# For the poor — hope, schooling, independence

By Gil Klein
Special to The Christian Science Monitor

Washington

KIMI Gray is the essence of congeniality as she walks through the housing project in the corner of northeast Washington she calls home. Most everyone she passes says, "Hi, Miss Kimi," and she replies with a great big smile, "Hi, baby, how you doin'?"

But her eye is always watching, watching who's around and what they're doing. "Why aren't you working?" she yells to two teen-agers she recognizes. And she makes sure she gets a satisfactory response.

Kimi Gray is a powerhouse among the 3,000 people who live in the Kenilworth Courts and Parkside Addition housing projects. She's receiving national recognition for her long list of accomplishments since 1974 — the students she's persuaded to go to college, the reforms she has fought for in the project's management, the new attitude she has inspired among tenants, the money she has attracted for renovation.

She has been lauded by such Congressmen as Rep. Jack Kemp of New York, who are holding her up as an example of what an individual can do to make changes that seem to elude the federal government.

And with the power of her testimony in Congress, a bill has been introduced that would provide seed money for housing projects seeking to emulate what has been done at Kenilworth-Parkside.

But she still remains Kimi Gray, a woman of low income who has managed against the odds to scrape together a decent life for herself. When she arrived at Kenilworth in 1966, she had five children to feed, no job, and no husband. Taking advantage of a government program, however, she graduated from a business college, and she has worked most of the time since then with the District of Columbia's Department of Recreation as a youth counselor.

Kimi Gray, revitalizing force in two housing projects

She is, she says, just "a big dreamer." She takes little of the credit for herself, emphasizing that the improvements in Kenilworth-Parkside have come from the tenants who have been willing to work for change.

Kenilworth is in the part of Washington tourists never see. Across the Anacostia River from the marble monuments and museums, away from even the run-down charm of the 19th-century town houses where many of Washington's poor blacks live, Kenilworth and the smaller Parkside are stark 1960-vintage, low-rise housing projects. Here the chronic unemployed and welfare mothers were warehoused, raising their children with little hope of breaking the poverty cycle.

"Kenilworth was one of the worst public housing projects," Ms. Gray recalls. "The crime rate was up and rapidly increasing. Vandalism was bad. Trash was everywhere. The high school dropout rate was high. Police were afraid to come in here, because kids would throw rocks at their cars.

"There was often no heat and hot water," she says. "The project's management was more concerned with bricks and mortar than with people. City Hall was insensitive to our needs."

By 1974, only two of the project's residents had been to college. But one day, she says, three high school students told her they wanted to go to college. Would she tell them how to go about it? She said she didn't know, and she told them to come back a week later to give her a chance to do some research.

The next week, the three teens came back, and they brought five others. Gray had learned that many black colleges were seeking recruits so they could keep their federal funding. She was able to help the students fill out applications and look for scholarships.

Seventeen Kenilworth-Parkside students headed for college that year. Four years later, when nine of them graduated, the residents threw them a ceremony and party to celebrate.

"In this city, if you don't have at least two years of college, you don't get a job," says Gray. "If a high school student tells me he doesn't need to go to college, I ask him what he wants to have when he's 25. When he tells me he wants a house and a family and to move his momma out of the project, I ask him if he knows how much that costs and what kind of job it takes to get that kind of money. Then I show him what kind of education it takes to get that kind of job," she said, "and I take him around to colleges and just let him talk to the other kids. That's usually all it takes."

Now 582 project residents have gone to college. And many of them have gone solely because Kimi Gray was there to encourage them.

"Back in 1974, I had dropped out of high school," says Michael Price, one of those students. "One day she [Gray] asked me what I wanted to do. I said I wanted to go back to school. She helped me get my GED [graduate equivalency degree], and then she helped me get into

Please see HOPE back page

Senator DIXON. Thank you very much, Mr. Caprara. And your full testimony as well as Bertha Gilkey's and Ms. Grays will be reproduced in the record in full.

And now it's my pleasure to introduce as our third panelist, Kimi Gray, chairman of the Washington, DC Kenilworth-Parkside Resident Management Corp.

Kimi is known in this area for having helped to transform a once rundown District of Columbia public housing project into a decent, safer, and more stable home environment for many residents.

Kimi, we are delighted to have you here as well before the subcommittee.

## STATEMENT OF KIMI GRAY, CHAIRPERSON, KENILWORTH-PARKSIDE RESIDENT MANAGEMENT CORP., WASHINGTON, DC

Ms. GRAY. Thank you very much, Senator Dixon. I'm very honored to have the privilege, the opportunity to speak before you this evening. I also do wish that all committee members could have been here to hear Mrs. Gilkey as well as Mr. Caprara make their presentation.

My name is Kimi Gray. I'm the chairperson of the board of directors of Kenilworth-Parkside Resident Management Corp.

Prior to that though, I am a mother of 5 children. I was a welfare recipient, so I fully understand the vested interest not only myself but my other residents had in improving the quality of life in our community.

Those 5 children now, 2 have completed college, 3 are in college. One will graduate this May—thank God. [Laughter.] And the other 2 will come out shortly behind him.

Senator DIXON. Congratulations to you, Kimi. That's a marvelous record.

Ms. GRAY. Thank you very much.

But, only through the help of the community, because we understand that, at Kenilworth-Parkside, we are family. The real community within the neighborhood.

I'm here today to speak in favor of the provisions that are provided in S. 2507, to reintroduce in the 100th Congress as S. 243 by you, my Senator, and I thank you very much for giving us the opportunity to empower the low-income people of public housing through resident management.

### BRIEF HISTORY OF KENILWORTH-PARKSIDE

Let me give you a brief history of Kenilworth-Parkside, because I want to remove the myths. Several myths are going around about resident management. And one of those myths is that you have to be like Bertha and I. Be able to come to the Hill to speak, fly around the country and do some training, and some other charismatic things that we do.

That's not so, because Bertha Gilkey nor Kimi Gray run those public housing properties. Our boards of directors do. We were elected as chairpersons. We have excellent staff. And I give my staff and my board all due credit.

And there are resources and support that we do receive that makes our property and our programs the success that they are.

And that needs to be made a part of the record because no one individual can possibly obtain all the success that we have accomplished within our housing developments in our cities and our communities.

The second myth is that resident management is only for properties that are totally deteriorated. That, after they've gone to the dumps and nobody else wants them, you give them to us.

That's not so. That's not so at all. That's why a part of the bill is for us to capture some of the SEAP funds in the resident managment so we can better control it.

For, you see, we have lived through the conditions of public housing in Kenilworth where the roofs leak, there was no heat and hot water. The trash receptacles were running over. There were gang robberies. There were rapes or murders.

And we don't want that again for our children. There was no participation in school activities. There was no government participation at all in our development. We have been somewhat, as we called it, abandoned.

Since then, we've changed. We created a program that's named, "College, Here We Come," where we began to realize that the only way we could be free of the deteriorating condition was to educate.

Now, in the youth meet with the families and adults. We created "College," and in 1974 was when our dream first began, the dream for us to control our own destiny. In August of 1975, we sent 17 of our students away to college around the country.

Those 17 students came back for their first Christmas break. And for the first time in their lives, they saw graffiti on walls, broken windows. So we understood then, if you live in it long enough, you can't see nor recognize the conditions you really live in—until you leave and you come back.

Those children started off the dream. They were the ones that sat down with myself and other adults and began to develop the master plan, the plan that presently exists today.

We started with 17 students, but I brag around the country because now we've sent 580 students around this country to college or university.

And 90 percent of our students do graduate. Some students came back and began to work in other fields. Some students do not graduate from college, only do 2 years and come back, but they have employable skills now and they're ready to go out to the working world.

It does give them a different view on life, a whole new perspective. It also restores the pride and respect back to them.

Our resident management's concept was and our full philosophy was to bring our families back together, restore the pride and respect back into our communities. Something that, traditionally, public housing had taken from us.

First of all, they give my mothers the welfare check which substitutes for the men that belongs in the household. And that's what we went for. We went out to our men and brought them back.

They're the ones that received the jobs. Our sons that had been committing crimes and our fathers that were living there are now on our leases.

### GOAL OF SELF-SUFFICIENCY

Those families are now back on the leases. We've restored families back together. We have given them jobs.

Some of the problems we have been confronted with is called section 12, I understand, in the Senate, called Davis-Bacon last year. We have had to pay certain wages to persons to hire them. But that was hard for us, because, you see our operating budget totally depends upon our rent collection. For we have not asked for any subsidy. That is how determined we were to make it on our own. You see, our ultimate goal is self-sufficiency, because self-sufficiency leads you to homeownership, because if you can totally take care of yourself not to depend on this government at all, then you are ready for homeownership.

Homeownership is something we know you just don't talk about or dream about. It is something you have to implement.

Kenilworth Parkside has been successful. We were the babies of resident management in this country until last year, until Lena Jackson in Cleveland, Lakeview Plaza, they became a resident management corporation.

We learned what we know from the National Training Organization. We now work very closely with the National Center for Neighborhood Enterprise, for they are our partners there to help us to venture off into new developments.

The main thing we had to do in Kenilworth was change the attitude of our residents and to give them back responsibility for maintaining their home. Something that had been taken from them by the Federal Government, because they wanted to control our destiny, and let alone the local housing authority, they put everything on them, they faulted the Federal Government for everything that was happening.

We have grown too. We have created a co-op market, laundromats. We have 10 small businesses on our property. We have our own day-care facilities too. We have gone as far as creating our own construction company, our own construction management firm. It oversees $13.2 million of rehab. We are now building our own senior citizens building. We are in the process of building 20 townhouses and also have purchased private property, we intend to turn over to condos that our construction company will do the rehab. And all the construction members consist of residents of our developments also.

You see, that is what resident management does. It doesn't deal with just bricks and mortar. It deals with people first, because we understand that the Federal Government can invest all the money it wants into any public housing site it chooses around the country, but if you don't work with the people to build back their self-esteem, responsibility to change their attitude, then you are wasting. You are throwing good money after bad.

That is what we don't tolerate in resident management.

We also reduce crime. When we took over our property, the police didn't want to come to Kenilworth. Now they are our partners. We have a substation within our public housing development.

Welfare recipientism ran rampant—87 percent of my population received some type of check every first to the third of the month.

That has been reduced to 22 percent. And those that are still receiving those checks are now are those that are senior citizens, receive SSI, and have no means of income, that we feel they are rightfully due.

Those that are healthy, we push forward. And I am not telling you any lie about persuading. We push toward become employed, going through training programs, because that is the way you keep your dignity and respect about yourself and set a different role model for your children to follow. So there will not be the continuing from generation to generation, because we believe in up and out if you are prepared and ready for it. We don't force you out.

Again like Ms. Gilkey said, our goal is not to evict. We've been managing 5 years. Our anniversary is February 28. That is our fifth anniversary. We have only evicted one family, and it took us 5 years before we evicted that one family. Our first eviction, and I cried harder than the lady that was being evicted, because we didn't want to see her get set out, because she had 2 children. And we are still offering her services, but she knew she had to go, because those were the standards our community had set.

### ASSESSMENT ON WHERE THE MONEY GOES

You see, let me explain something to you all. It is a myth that low-income people do not know how to set standards. That is not true, because we have proven through resident manager, we not only set standards socially but economically. We know how to make a buck, and we know how to make it work. You see, we did a survey in our community, and we realize, in the Jewish community, the money goes around and around and around. In the Caucasian community, it goes around also. But in our community, as we get our checks, we cash them and give them back to those where it keeps going around. That is changed in our communities now. Now that is why we did a need assessment. We keep our money in our community now. We did an assessment to find, out of the 464 units we manage, we have an average of $5.4 million of income in that community.

We have captured 40 percent of that money, and they are doing it so our small businesses could capture about $1.3 million of the money from the residents in the community into businesses they desire, and they desire the beauty and barber salon, the co-op market, the thrift store and other services that we provide them, and they patronize those services, because they are ours. We have a vested interest.

I tell you like I tell my City Council in D.C. We aren't going anywhere. So there might as well be a marriage performed. We can work together to upgrade this community. We are only blighted. We are only in the worst part of the city, because you have placed us there. Now that we want to be recognized that we have the capability of taking care of ourselves. One thing we have learned is to fish for ourselves. Given the opportunity, we will continue to fish for ourselves.

A lot of times, people say we don't care. That is not so, and we have proven this. I invited you over. You came. You saw what we could do. You've gone to Chicago and other places where resident management has been the key.

But understand, it is not the total, final alternative. Some residents don't want resident management, for they don't want the responsibility that goes along with it. It is hard work, and it costs to have good resident management, and we understand that.

One thing that we do always emphasize at Kenilworth, as Frederick Douglass once said, "Without struggle there is no progress." And we truly understand struggle, because we have been through that long before there was resident management.

We have been waiting for years for this opportunity to come before you. Last year, in the House, we were overwhelmed. We popped champagne when the House passed our bill by 420 to 0. [Laughter.]

We come to you this year, not asking, but pleading, that you understand what we have made and convinced the House to understand, that we are prepared to determine our own destiny, if given the opportunity. Provisions in your bill will give us that opportunity.

And I thank you very much for the opportunity to come before you today.

Senator DIXON. Well, I thank you, Kimi.

I just want to say to my old friend, Dave Caprara, that he sure is traveling around in pretty dynamite company here. This is, you know, a pretty substantial group you are traveling with. I guess you can handle it, though.

Ms. GRAY. Oh, yes. He's quite able.

Senator DIXON. I want to thank you, Kimi. I want to thank you, Bertha, and of course, Dave, an old friend who interned in our office. As you know, we marked up the tenant management bill last year in the housing bill here in the committee. Unfortunately, the housing bill didn't pass last year and we now have this resident management feature in our housing bill. We have a separate bill, my own separate bill with substantial cosponsorship here as well, and I feel comfortable about the fact that is going to move right along.

The devotion of all of you to this great cause has been a very meaningful experience for me. I want you to know that it is people like you all over America who are making a difference, and we on this committee, I think, are genuinely impressed by everything you have done. I mean that sincerely.

So I want to thank you, Bertha. I want to thank you, Kimi. I want to thank you, Dave.

We are going to be getting to this soon. I think the markup will be March 3, and we look forward to working with you on this matter and getting it successfully through the Congress and to the President's desk. Then you can all go over there and just dazzle the president, like you've dazzled us.

Ms. GRAY. I always do that, every chance I get.

Ms. GILKEY. Thank you, Senator.

Ms. GRAY. Thank you very much.

Senator DIXON. This meeting is adjourned, and we thank you.

[Whereupon, at 4:25 p.m., the hearing was adjourned.]

[Copy of S. 2507 with additional material submitted for the record follows:]

## HOPE from front page

Paine College in Augusta. I didn't do too good there, and I came back. But I told her I wanted to try again. She helped me get into Elizabeth City State University and then into the Howard University School of Architecture. She was always there to help me."

Having those students going to college began to have an effect on the housing project, Gray says. Coming back on vacation, they would see the trash and rodents, the crime and graffiti. They wanted to do something about it.

In 1981, Gray was able to get a $78,000 grant from the District of Columbia to hire all of the college graduates to clean up the project. When the residents saw what they could accomplish, they called a meeting and resolved to take over the project's management.

After obtaining permission from the mayor, the residents set up their own association, elected Gray president, and went through a year of training before they were allowed to take charge.

Residents were hired to fill as many jobs as possible. Residents voted on what they wanted, and an employment office, a health clinic, and a social service office were created. A new engineer was hired who was able to fix the hot water and heating systems. Now when something breaks, it is fixed quickly. Trash is picked up six times a week, and the rodents have been eradicated.

Planning, with neighbors, rehab of 464 housing units

Crime and vandalism are down, and residents are fighting drug trafficking by cooperating with police.

One of the telling signs of success of their work is the amount of money the association collects in rent, which is charged according to income. Before the residents took over management, 85 percent of the project's residents were on welfare, according to the National Center for Neighborhood Enterprises, which has studied the neighborhood. Now 35 percent are. For the first time in the project's history, the amount of money collected for rent covers the cost of operation, according to the center. The district government is now making money on Kenilworth-Parkside.

Gray has been able to win a $13.5 million federal grant to rehabilitate the project's 464 housing units. Not content with letting a contractor do the work, the residents decided to form a joint-venture company with a contractor, so many residents could be employed.

That joint-venture company will be using another $1.8 million grant to build 20 town houses. Michael Price, the man Kimi Gray encouraged to go to college, will be the architect.

And when the renovation is finished, what next?

"We want to buy our homes," she said. "We want ownership, so that those of us who have stayed so long and worked so hard can enjoy the fruits of our labor."

**Calendar No. 666**

99TH CONGRESS
2D SESSION

# S. 2507

**[Report No. 99–314]**

To amend and extend certain laws relating to housing, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

MAY 20, 1986

Mr. GARN, from the Committee on Banking, Housing, and Urban Affairs, reported, under authority of the order of the Senate of May 21 (legislative day, May 19), 1986, the following original bill; which was read twice and placed on the calendar

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# A BILL

To amend and extend certain laws relating to housing, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the "Housing Act of 1986".

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# TITLE I—PROGRAM EXTENSIONS AND AMENDMENTS

## Subtitle A—General Extension of Programs

### SEC. 101. EXTENSION OF FEDERAL HOUSING ADMINISTRATION MORTGAGE INSURANCE PROGRAMS.

(a) TITLE I INSURANCE.—Section 2(a) of the National Housing Act is amended by striking out "June 6, 1986" in the first sentence and inserting in lieu thereof "September 30, 1987".

(b) General Insurance.—Section 217 of the National Housing Act is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

(c) Low and Moderate Income Housing Insurance.—Section 221(f) of the National Housing Act is amended by striking out "June 6, 1986" in the fifth sentence and inserting in lieu thereof "September 30, 1987".

(d) Co-Insurance.—

(1) General authority.—Section 244(d) of the National Housing Act is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

(2) Rental rehabilitation and development projects.—Section 244(h) of the National Housing Act is amended by striking out "June 6, 1986" in the last sentence and inserting in lieu thereof "September 30, 1987".

(e) Graduated Payment and Indexed Mortgage Insurance.—Section 245(a) of the National Housing Act is amended by striking out "June 6, 1986" in the last sentence and inserting in lieu thereof "September 30, 1987".

(f) Reinsurance Contracts.—Section 249(a) of the National Housing Act is amended by striking out "June 6, 1986" in the second sentence and inserting in lieu thereof "September 30, 1987".

(g) Armed Services Housing Insurance.—

(1) Civilian employees of armed forces.—Section 809(f) of the National Housing Act is amended by striking out "June 6, 1986" in the last sentence and inserting in lieu thereof "September 30, 1987".

(2) Defense housing for impacted areas.—Section 810(k) of the National Housing Act is amended by striking out "June 6, 1986" in the last sentence and inserting in lieu thereof "September 30, 1987".

(h) Land Development Insurance.—Section 1002(a) of the National Housing Act is amended by striking out "June 6, 1986" in the last sentence and inserting in lieu thereof "September 30, 1987".

(i) Group Practice Facilities Insurance.—Section 1101(a) of the National Housing Act is amended by striking out "June 6, 1986" in the last sentence and inserting in lieu thereof "September 30, 1987".

**SEC. 102. EXTENSION OF REHABILITATION LOAN AUTHORITY.**

Section 312(h) of the Housing Act of 1964 is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

**SEC. 103. EXTENSION OF RURAL HOUSING AUTHORITIES.**

(a) Rental Housing Loan Authority.—Section 515(b)(4) of the Housing Act of 1949 is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

(b) Mutual and Self-Help Housing Grant and Loan Authority.—Section 523(f) of the Housing Act of 1949 is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

SEC. 104. EXTENSION OF FLOOD INSURANCE PROGRAMS.

(a) General Authority.—Section 1319 of the National Flood Insurance Act of 1968 is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

(b) Emergency Implementation.—Section 1336(a) of the National Flood Insurance Act of 1968 is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

(c) Establishment of Flood-Risk Zones.—Section 1360(a)(2) of the National Flood Insurance Act of 1968 is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987".

(d) Limitation on Premiums.—The premium rates charged for flood insurance under any program established pursuant to the National Flood Insurance Act of 1968 may not be increased during the period beginning on the date of enactment of this Act and ending on September 30, 1987, by more than a prorated annual rate of 10 percent.

SEC. 105. MISCELLANEOUS EXTENSIONS.

(a) Section 202 Interest Rate Limitation.—Section 223(a) of the Housing and Urban-Rural Recovery Act of 1983 is amended by striking out paragraph (2).

(b) Home Mortgage Disclosure Act of 1975.—Section 312 of the Home Mortgage Disclosure Act of 1975 is amended by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1990".

## Subtitle B—Mortgage Insurance and Secondary Mortgage Market Programs

SEC. 121. LIMITATION ON FEDERAL HOUSING ADMINISTRATION INSURANCE PREMIUMS.

Section 203(c) of the National Housing Act is amended by striking out all that precedes the first proviso and inserting in lieu thereof the following: "The Secretary is authorized to fix premium charges for the insurance of mortgages under the separate section of this title. In the case of any mortgage insured under section 203(b) or 234, such charge shall not be more than 3.8 per centum of the principal obligation of the loan or mortgage involved. In the case of any other mortgage insured under this title such charge shall not be more than an amount equivalent to 1 percent per annum of the amount of the principal obligation of the mortgage outstanding at any time, without taking into account delinquent payments or prepayments. The Secretary shall certify to

Congress 90 days prior to any increases in these fees that the proposed increases are solely for the purposes specified in the following sentence. The fee charged for the insurance of mortgages under this title shall be set by the Secretary at a level adequate to create reserves sufficient to meet anticipated claims based upon actuarial analysis, and to compensate for actual administrative expenses, but for no other purpose:".

### SEC. 122. ADJUSTMENTS TO RENTAL HOUSING INSURANCE MORTGAGE LIMITS.

(a) Section 221(d)(3) Limits.—Section 221(d)(3)(ii) of the National Housing Act is amended by striking out "$21,563"; "$24,862"; "$29,984"; "$38,379"; "$42,756"; "$22,692"; "$26,012"; "$31,631"; "$40,919"; and "$44,917" and inserting in lieu thereof "$28,032"; "$32,321"; "$38,979"; "$49,893"; "$55,583"; "$29,500"; "$33,816"; "$41,120"; "$53,195"; and "$58,392", respectively.

(b) Section 221(d)(4) Limits.—Section 221(d)(4)(ii) of the National Housing Act of 1934 is amended by striking out "$19,406"; "$22,028"; "$26,625"; "$33,420"; "$37,870"; "$20,962"; "$24,030"; "$29,220"; "$37,800"; and "$41,494" and inserting in lieu thereof "$25,228"; "$28,636"; "$34,613"; "$43,446"; "$49,231"; "$27,251";

"$31,239"; "$37,986"; "$49,140"; and "$53,942", respectively.

### SEC. 123. REFINANCING MORTGAGE INSURANCE FOR HOSPITALS, NURSING HOMES, INTERMEDIATE CARE FACILITIES, AND BOARD AND CARE HOMES.

(a) State Certification Requirement.—Section 223(f)(4)(D) of the National Housing Act is amended to read as follows:

"(D) the State in which the hospital, nursing home, intermediate care facility, or board and care home is located has—

"(i) conducted a study which assesses, on a marketwide basis, the impact on and relationship of the proposed facility to other health care facilities and services, the percentage of excess beds, demographic projections, alternative health care delivery systems, and the reimbursement structure of the facility;

"(ii) obtained an independent feasibility study prepared for the facility in accordance with the principles established by the American Institute of Certified Public Accountants; and

"(iii) transmitted to the Secretary a report on both the marketwide study and the feasibility study which indicates the support for and the financial feasibility of the project in question.".

(b) Refinancing Insurance for Nursing Homes, Intermediate Care Facilities, and Board and Care Homes.—Section 223(f) of the National Housing Act is amended—

(1) in paragraph (1) by inserting after "existing hospital" the following: ", existing nursing home, existing intermediate care facility, or existing board and care home"; and

(2) in paragraph (4), by inserting after "existing hospital" each place it appears the following: ", existing nursing home, existing intermediate care facility, or existing board and care home".

(c) Regulations.—The Secretary of Housing and Urban Development shall issue such regulations as may be necessary to carry out the amendments made by this section by not later than the expiration of the 90-day period following the date of enactment of this Act.

**SEC. 124. MORTGAGE INSURANCE FOR NURSING HOMES, INTERMEDIATE CARE FACILITIES, AND BOARD AND CARE HOMES.**

(a) Insurance for Public Nursing Homes.—Section 232(b)(1) of the National Housing Act is amended by inserting "public facility," before "proprietary".

(b) Requirement of State Approval.—Section 232(d)(4)(A) of the National Housing Act is amended—

(1) by striking out "(i)" and all that follows through "(ii)"; and

(2) by inserting before the period at the end thereof the following: "and unless the State in which the facility is located has—

"(i) conducted a study which assesses, on a marketwide basis, the impact on and relationship of the proposed facility to other health care facilities and services, the percentage of excess beds, demographic projections, alternative health care delivery systems, and the reimbursement structure of the facility;

"(ii) obtained an independent feasibility study prepared for the facility in accordance with the principles established by the American Institute of Certified Public Accountants; and

"(iii) transmitted to the Secretary a report on both the marketwide study and the feasibility study which indicates the support for and the financial feasibility of the project in question".

(c) Regulations.—The Secretary of Housing and Urban Development shall issue such regulations as may be necessary to carry out the amendments made by this section by not later than the expiration of the 90-day period following the date of enactment of this Act.

### SEC. 125. REQUIREMENT OF STATE APPROVAL FOR MORTGAGE INSURANCE FOR HOSPITALS.

(a) IN GENERAL.—Section 242(d)(4) of the National Housing Act is amended—

(1) by striking out "(A)" and all that follows through "(B)"; and

(2) by inserting before the period at the end thereof the following: ", and unless the State in which the hospital is located has—

"(i) conducted a study which assesses, on a marketwide basis, the impact on and relationship of the proposed facility to other health care facilities and services, the percentage of excess beds, demographic projections, alternative health care delivery systems, and the reimbursement structure of the facility;

"(ii) obtained an independent feasibility study prepared for the facility in accordance with the principles established by the American Institute of Certified Public Accountants; and

"(iii) transmitted to the Secretary a report on both the marketwide study and the feasibility

study which indicates the support for and the financial feasibility of the project in question".

(b) REGULATIONS.—The Secretary of Housing and Urban Development shall issue such regulations as may be necessary to carry out the amendment made by this section by not later than the expiration of the 90-day period following the date of enactment of this Act.

### SEC. 126. RELEASE OF POOL FUNDS.

(a) SECTION 236.—Section 236 of the National Housing Act is amended by adding at the end thereof the following:

"(r) The Secretary shall, not later than 45 days after receipt of an application by the mortgagee, provide interest reduction and rental assistance payments for the benefit of projects assisted under this section whose mortgages were made by State or local housing finance agencies or State or local government agencies for a term equal to the remaining mortgage term to maturity on projects assisted under this section to the extent of—

"(1) unexpended balances of amounts of authority as set forth in certain letter agreements between the Department of Housing and Urban Development and such State or local housing finance agencies or State or local government agencies, and

"(2) existing allocation under section 236 contracts on projects whose mortgages were made by State or local housing finance agencies or State or local government agencies which are not being funded, to the extent of such excess allocation, for any purposes permitted under the provisions of this section, including without limitation rent supplement and rental assistance payment unit increases and mortgage increases for any eligible purpose under this section, including without limitation operating deficit loans.

An application shall be eligible for assistance under the previous sentence only if the mortgagee submits the application within 548 days after the effective date of this subsection, along with a certification of the mortgagee that amounts hereunder are to be utilized only for the purpose of either (A) reducing rents or rent increases to tenants, or (B) making repairs or otherwise increasing the economic viability of a related project. Unexpended balances referred to in the first sentence of this subsection which remain after disposition of all such applications is favorably concluded shall be rescinded. The calculation of the amount of assistance to be provided under an interest reduction contract pursuant to this subsection shall be made on the basis of an assumed mortgage term equal to the lesser of a 40-year amortization period or the term of that part of the mortgage which relates to the additional assistance provided under this subsection, even though the additional assistance may be provided for a shorter period.".

(b) RENT SUPPLEMENT PROGRAM.—Section 101 of the Housing and Urban Development Act of 1965 is amended by adding at the end thereof the following:

"(m) The Secretary shall, not later than 45 days after receipt of an application by the mortgagee, provide interest reduction and rental assistance payments for the benefit of projects assisted under this section whose mortgages were made by State or local housing finance agencies or State or local government agencies for a term equal to the remaining mortgage term to maturity on projects assisted under this section to the extent of—

"(1) unexpended balances of amounts of authority as set forth in certain letter agreements between the Department of Housing and Urban Development and such State or local housing finance agencies or State or local government agencies, and

"(2) existing allocation under section 236 contracts on projects whose mortgages were made by State or local housing finance agencies or State or local government agencies which are not being funded, to the extent of such excess allocation, for any purposes permitted under the provisions of this section.

An application shall be eligible for assistance under the previous sentence only if the mortgagee submits the application within 548 days after the effective date of this subsection, along with a certification of the mortgagee that amounts are to be utilized hereunder for the purpose of either (A) reducing rents or rent increases to tenants, or (B) making repairs or otherwise increasing the economic viability of a related project. Unexpended balances referred to in the first sentence of this subsection which remain after disposition of all such applications is favorably concluded shall be rescinded.".

### SEC. 127. INCREASE IN AUTHORITY TO INSURE ADJUSTABLE RATE SINGLE FAMILY MORTGAGES.

(a) IN GENERAL.—Section 251(c) of the National Housing Act is amended to read as follows:

"(c) The aggregate number of mortgages and loans insured under this section in any fiscal year may not exceed 40 percent of the aggregate number of mortgages and loans insured by the Secretary under this title during the preceding fiscal year.".

(b) CONFORMING AMENDMENTS.—

(1) Section 245(c) of the National Housing Act is amended in the last sentence by striking out ", section 251,".

(2) Section 252(g) of the National Housing Act is amended—

(A) by striking out the first comma and inserting in lieu thereof "and"; and

(B) by striking out ", and section 251".

### SEC. 128. LIMITATIONS ON CERTAIN SECONDARY MORTGAGE MARKET FEES.

(a) FEDERAL NATIONAL MORTGAGE ASSOCIATION.—Section 304 of the Federal National Mortgage Association Charter Act is amended by adding at the end thereof the following new subsection:

"(f) Except for fees paid pursuant to section 309(g), no fee or charge may be assessed or collected by the United States (including any executive department, agency, or independent establishment of the United States) on or with regard to the purchase, acquisition, sale, pledge, issuance, guarantee, or redemption of any mortgage, asset, obligation, trust certificate of beneficial interest, or other security by the corporation. No provision of this subsection shall affect the purchase of any obligation by the Secretary of the Treasury pursuant to subsection (c).".

(b) GOVERNMENT NATIONAL MORTGAGE ASSOCIATION.—Section 306(g) of Federal National Mortgage Association Charter Act is amended by adding at the end thereof the following new paragraph:

"(3)(A) No fee or charge in excess of 6 basis points may be assessed or collected by the United States (including any executive department, agency, or independent establishment of the United States) on or with regard to any guaranty of the timely payment of principal or interest on securities or notes based on or backed by mortgages that are secured by 1- to 4-family dwellings and (i) insured by the Federal Housing Administration under title II of the National Housing Act; or (ii) insured or guaranteed under the Serviceman's Readjustment Act of 1944, chapter 37 of title 38, United States Code, or title V of the Housing Act of 1949.

"(B) The fees charged for the guaranty of securities or on notes based on or backed by mortgages not referred to in subparagraph (A), as authorized by other provisions of law, shall be set by the Association at a level not more than necessary to create reserves sufficient to meet anticipated claims based upon actuarial analysis, and for no other purpose.

"(C) Fees or charges for the issuance of commitments or miscellaneous administrative fees of the Association shall not be on a competitive auction basis and shall remain at the level set for such fees or charges as of September 1, 1985, except that such fees or charges may be adjusted if demonstrably related to the cost of administering the program, and for no other purpose.

"(D) Not less than 90 days before increasing any fee or charge under subparagraph (B) or (C), the Secretary shall

submit to the Congress a certification that such increase is solely for the purpose specified in such subparagraph.".

(c) Federal Home Loan Mortgage Corporation.—Section 306 of the Federal Home Loan Mortgage Corporation Act is amended by adding at the end thereof the following new subsection:

"(i) Except for fees paid pursuant to section 303(c) or 306(c), no fee or charge may be assessed or collected by the United States (including any executive department, agency, or independent establishment of the United States) on or with regard to the purchase, acquisition, sale, pledge, issuance, guarantee, or redemption of any mortgage, asset, obligation, or other security by the Corporation. No provision of this subsection shall affect the purchase of any obligation by any Federal Home Loan Bank pursuant to section 303(a).".

**SEC. 129. MORTGAGE INSURANCE PROGRAM LOSS REDUCTION.**

(a) Regulatory Actions.—The Secretary of Housing and Urban Development shall take appropriate administrative actions to reduce losses in connection with the mortgage insurance programs carried out pursuant to the National Housing Act.

(b) Reports of Identifying Numbers.—Title V of the National Housing Act is amended by adding at the end thereof the following new section:

### "AUTHORITY FOR THE SECRETARY TO REQUIRE MORTGAGEES AND LENDERS TO REPORT TAXPAYER IDENTIFYING NUMBERS OF BORROWERS

"SEC. 534. Notwithstanding any other provision of law, to assist in enforcing the requirements of this Act, the Secretary may require a mortgagee approved under this Act, or a lender holding a contract of insurance under title I of this Act, to disclose to the Secretary the taxpayer identifying numbers contained in the records of the mortgagee or lender with respect to borrowers under any program under this Act. The Secretary shall establish such safeguards as are necessary (as determined in regulations issued by the Secretary) to ensure that information secured under this section is used only for the purpose of assisting the Secretary in enforcing the requirements of this Act. The term 'taxpayer identifying number' has the meaning given to such term by section 6109 of the Internal Revenue Code of 1954.".

(c) REPORTS BY MORTGAGEES.—Title V of the National Housing Act is amended by adding at the end thereof the following new section:

### "DIRECTION TO THE SECRETARY TO REQUIRE MORTGAGEES WITH ABOVE NORMAL RATES OF EARLY, SERIOUS DEFAULTS AND CLAIMS TO SUBMIT REPORTS AND TAKE CORRECTIVE ACTION

"SEC. 535. (a) To reduce losses in connection with mortgage insurance programs under this Act, the Secretary

shall review, at least once a year, the rate of early serious defaults and claims involving mortgagees approved under this Act. On the basis of this review, the Secretary shall notify each mortgagee which, as determined by the Secretary, had a rate of early serious defaults and claims during the preceding year which was higher than the normal rate for the geographic area or areas in which that mortgagee does business. In the notification, the Secretary shall require each mortgagee to submit a report, within a time determined by the Secretary, containing the mortgagee's (1) explanation for the above normal rate of early serious defaults and claims; (2) plan for corrective action, if applicable, both with regard to mortgages (A) in default; and (B) its mortgage-processing system in general; and (3) a timeframe within which this corrective action will be begun and completed. If the Secretary does not agree with this timeframe or plan, a mutually agreeable timeframe and plan will be determined.

"(b) Failure of the mortgagee to submit a report required under subsection (a) within the time determined by the Secretary or to commence or complete the plan for corrective action within the timeframe agreed upon by the Secretary may be cause for suspension of the mortgagee from participation in programs under this Act.".

### SEC. 130. MORTGAGES ON HAWAIIAN HOME LANDS AND INDIAN LANDS.

(a) Hawaiian Home Lands.—Section 247 of the National Housing Act is amended by adding the following new subsection at the end thereof:

"(d) Notwithstanding any other provision of this Act, the insurance of a mortgage using the authority contained in this section shall be the obligation of the General Insurance Fund created pursuant to section 519 of this Act. The mortgagee shall be eligible to receive the benefits of insurance as provided in section 204 of this Act with respect to mortgages insured pursuant to this section, except that all references in section 204 to the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund, and all references in section 204 to section 203 shall be construed to refer to the section under which the mortgage is insured.".

(b) Indian Lands.—Section 248 of the National Housing Act is amended by—

(1) redesignating subsections (f), (g), and (h) as subsections (g), (h), and (i), respectively, and inserting after subsection (e) the following new subsection:

"(f) Notwithstanding any other provision of this Act, the insurance of a mortgage using the authority contained in this section shall be the obligation of the General Insurance Fund created pursuant to section 519 of this Act. The mortgagee

shall be eligible to receive the benefits of insurance as provided in section 204 of this Act with respect to mortgages insured pursuant to this section, except that all references in section 204 to the Mutual Mortgage Insurance Fund or the Fund shall be construed to refer to the General Insurance Fund, and all references in section 204 to section 203 shall be construed to refer to the section under which the mortgage is insured."; and

(2) striking out in the last sentence of subsection (g)(3) and the first sentence of subsection (g)(5), as such subsections were redesignated by paragraph (1), "insurance fund" each place it appears and inserting in lieu thereof "General Insurance Fund".

### SEC. 131. FHA TITLE I REGULATIONS.

The rule revising regulations under title I of the National Housing Act which was published October 25, 1985, and which became effective on January 15, 1986 (50 Federal Register 43516; 51 Federal Register 1495), shall cease to be effective and shall not again be effective until January 1, 1987. Prior to such time, the Secretary of Housing and Urban Development shall reopen the rule for public comment and shall take account of the comments received.

## Subtitle C—Community and Neighborhood Development and Conservation Programs

**SEC. 141. CITY AND COUNTY CLASSIFICATIONS.**

(a) METROPOLITAN CITY.—Section 102(a)(4) of the Housing and Community Development Act of 1974 is amended—

(1) in the second sentence, by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987"; and

(2) by adding at the end thereof the following new sentence: "Any city classified as a metropolitan city pursuant to the first or second sentence of this paragraph, and that no longer qualifies as a metropolitan city under such first or second sentence in a fiscal year beginning after fiscal year 1986, shall retain its classification as a metropolitan city for such fiscal year and the succeeding fiscal year, except that in such succeeding fiscal year (A) the amount of the grant to such city shall be 50 percent of the amount calculated under section 106(b); and (B) the remaining 50 percent shall be added to the amount allocated under section 106(d) to the State in which the city is located and the city shall be eligible in such succeeding fiscal year to receive a

distribution from the State allocation under section 106(d) as increased by this sentence.".

(b) URBAN COUNTY.—Section 102(a)(6) of the Housing and Community Development Act of 1974 is amended—

(1) before the period at the end of the first sentence, add the following: ", or (D) beginning with fiscal year 1987, has a current population in excess of 177,000, and has more than 50 percent of the housing units of the area unsewered and contributing to the degradation of an aquifer that has been declared a sole source aquifer by the Environmental Protection Agency, with the amount of the grant to such urban county under this clause to be derived from the State's allocation under section 106(d)";

(2) in the second sentence, by striking out "June 6, 1986" and inserting in lieu thereof "September 30, 1987"; and

(3) by adding at the end thereof the following new sentence: "Any county classified as an urban county pursuant to the first or second sentence of this paragraph, and that no longer qualifies as an urban county under such first or second sentence in a fiscal year beginning after fiscal year 1986, shall retain its classification as an urban county for such fiscal year and the succeeding fiscal year, except that in such succeeding

fiscal year (A) the amount of the grant to such an urban county shall be 50 percent of the amount calculated under section 106(b); and (B) the remaining 50 percent shall be added to the amount allocated under section 106(d) to the State in which the urban county is located and the urban county shall be eligible in such succeeding fiscal year to receive a distribution from the State allocation under section 106(d) as increased by this sentence.".

(c) CONSIDERATION OF CERTAIN COUNTIES AS CITIES UNDER URBAN DEVELOPMENT ACTION GRANT PROGRAM.—Section 119(n)(1) of the Housing and Community Development Act of 1974 is amended by adding at the end thereof the following new sentence: "Such term also includes the counties of Kauai, Maui, and Hawaii in the State of Hawaii.".

### SEC. 142. URBAN DEVELOPMENT ACTION GRANT SELECTION CRITERIA.

(a) AUTHORIZATION.—Section 119(a) of the Housing and Community Development Act of 1974 is amended by striking out the last sentence and inserting in lieu thereof the following: "There are authorized to be appropriated to carry out the provisions of this section not to exceed $440,000,000 for each of the fiscal years 1984 and 1985, and such sums as may be necessary for fiscal years 1986 and 1987. Any

amount appropriated under the preceding sentence shall remain available until expended.".

(b) PROJECT QUALITY CRITERIA.—Section 119(d)(1) of the Housing and Community Development Act of 1974 is amended—

(1) by inserting a dash before "(A)";

(2) by indenting subparagraphs (A) and (B) in the same manner as subparagraphs (C) and (D), as inserted by this subsection;

(3) in subparagraph (A), by striking out "as the primary criterion,";

(4) by striking out "and" at the end of subparagraph (B); and

(5) by striking out subparagraph (C) and inserting in lieu thereof the following new subparagraphs:

"(C) the following other criteria:

"(i) the extent to which the grant will stimulate economic recovery by leveraging private investment;

"(ii) the number of permanent jobs to be created and their relation to the amount of grant funds requested;

"(iii) the proportion of permanent jobs accessible to lower income persons and minorities, including persons who are unemployed;

"(iv) the extent to which the project will retain jobs that will be lost without the provision of a grant under this section;

"(v) the extent to which the project will relieve the most pressing employment or residential needs of the applicant by—

"(I) reemploying workers in a skill that has recently suffered a sharp increase in unemployment locally;

"(II) retraining recently unemployed residents in new skills;

"(III) providing training to increase the local pool of skilled labor; or

"(IV) producing decent housing for low- and moderate-income persons in cases where such housing is in severe shortage in the area of the applicant, except that an application shall be considered to produce housing for low- and moderate-income persons under this clause only if such application proposes that (a) not less than 51 percent of all funds available for the project shall be used for dwelling units and related facilities; and (b) not less than 30 percent of all funds used for dwelling units and related facilities shall be

used for dwelling units to be occupied by persons of low and moderate income, or not less than 20 percent of all dwelling units made available to occupancy using such funds shall be occupied by persons of low and moderate income, whichever results in the occupancy of more dwelling units by persons of low and moderate income;

"(vi) the impact of the proposed activities on the fiscal base of the city or urban county and its relation to the amount of grant funds requested;

"(vii) the extent to which State or local Government funding or special economic incentives have been committed; and

"(viii) the extent to which the project will have a substantial impact on physical and economic development of the city or urban county, the proposed activities are likely to be accomplished in a timely fashion with the grant amount available, and the city or urban county has demonstrated performance in housing and community development programs; and

"(D) additional consideration for projects with the following characteristics:

"(i) projects to be located within a city or urban county which did not receive a preliminary grant approval under this section during the 12-month period preceding the date on which applications are required to be submitted for the grant competition involved; and

"(ii) twice the amount of the additional consideration provided under clause (i) for projects to be located in cities or urban counties which did not receive a preliminary grant approval during the 24-month period preceding the date on which applications under this section are required to be submitted for the grant competition involved.

If a city or urban county has submitted and has pending more than one application, the additional consideration provided by subparagraph (D) of the preceding sentence shall be available only to the project in such city or urban county which received the highest number of points under subparagraph (C) of such sentence.".

(c) SELECTION LIMITATIONS AND CRITERIA WEIGHT.—Section 119(d) of the Housing and Community Development Act of 1974 is amended by adding at the end thereof the following new paragraphs:

"(3) The Secretary shall award points to each application as follows:

"(A) not more than 35 points on the basis of the criteria referred to in paragraph (1)(A);

"(B) not more than 35 points on the basis of the criteria referred to in paragraph (1)(B);

"(C) not more than 33 points on the basis of the criteria referred to in paragraph (1)(C); and

"(D)(i) 1 additional point on the basis of the criterion referred to in paragraph (1)(D)(i); or

"(ii) 2 additional points on the basis of the criterion referred to in paragraph (1)(D)(ii).

"(4) The Secretary shall distribute grant funds under this section so that to the extent practicable during each funding cycle—

"(A) 65 percent of the funds is first made available utilizing all of the criteria set forth in paragraph (1); and

"(B) 35 percent of the funds is then made available solely on the basis of the factors referred to in subparagraphs (C) and (D) of paragraph (1).

"(5)(A) For each fiscal year, the Secretary shall hold—

"(i) 3 competitions for grants under paragraph (1) for cities not described in the first sentence of subsection (i) (relating to small cities) and urban counties; and "(ii) 3 competitions for cities described in the first sentence of subsection (i) (relating to small cities).

"(B) Each competition for grants described in any clause of subparagraph (A) shall be for an amount equal to the sum of—

"(i) approximately ⅓ of the funds available for such grants for the fiscal year;

"(ii) any funds available for such grants in any previous competition that are not awarded; and

"(iii) any funds available for such grants in any previous competition that are recaptured.".

(d) ADDITIONAL CONSIDERATION.—Notwithstanding any provision of section 119 of the Housing and Community Development Act of 1974, for purposes of funding decisions made before October 15, 1986, the Secretary of Housing and Urban Development shall give additional consideration, equal to the points otherwise awarded under section 119(d)(1)(C) of the Housing and Community Development Act of 1974, as amended by this section, in the case of a project to be located in a city or urban county to which no grant under section 119 of such Act was made and not terminated since October 15, 1984, if such project has met the criteria for preliminary approval in 3 consecutive funding cycles including the current cycle. If a city or urban county has submitted and has pending more than one application, the additional consideration provided by the preceding sentence shall be available only to the project in such city or urban county which received the largest number of points under section 119(d)(1)(C) of the Housing and Community Development Act of 1974.

(e) USE OF REPAID GRANT FUNDS.—Section 119(f) of the Housing and Community Development Act of 1974 is amended by adding at the end thereof the following: "In any case in which the project proposes the repayment to the applicant of the grant funds, such funds shall be made available by the applicant for economic development activities that are eligible activities under this section or section 104. The applicant shall annually provide the Secretary with a statement of the projected receipt and use of repaid grant funds during the next year together with a report acceptable to the Secretary on the use of such funds during the most recent preceding full fiscal year of the applicant.".

(f) NONDISCRIMINATION.—Section 119(r) of the Housing and Community Development Act of 1974 is amended to read as follows:

"(r) In utilizing the discretion of the Secretary when providing assistance and applying selection criteria under this section, the Secretary may not discriminate against applications on the basis of (1) the type of activity involved, whether such activity is primarily housing, industrial, or commercial;

or (2) the type of applicant, whether such applicant is a city or urban county.".

(g) REPORTS OF COMPTROLLER GENERAL.—

(1)(A) Not later than the expiration of the 6-month period following the date of enactment of this Act and every 3 years thereafter, the Comptroller General of the United States shall prepare and submit to the Congress a comprehensive report evaluating the eligibility standards and selection criteria applicable under section 119 of the Housing and Community Development Act of 1974.

(B) Such report shall evaluate in detail the standards and criteria specified in such section that measure the level or comparative degree of economic distress of cities and urban counties and the effect of the grants awarded on the basis of such standards and criteria on stimulating the maximum economic development activity.

(C) Such report shall also evaluate in detail the extent to which the economic and social data utilized by the Secretary in awarding grants under such section is current and accurate, and shall compare the data used by the Secretary with other available data. The Comptroller General shall make recommendations to the Congress on whether or not other data should be

collected by the Federal Government in order to fairly and accurately distribute grants under such section based on the level or comparative degree of economic distress. The Comptroller General shall also make recommendations on whether or not existing data should be collected more frequently in order to ensure that timely data is used to evaluate grant applications under such section.

(2) Not later than the expiration of the 3-month period following the date of the final competition for grants for fiscal year 1986 under section 119 of the Housing and Community Development Act of 1974, the Comptroller General of the United States shall prepare and submit to the Congress a comprehensive report describing the effect of the amendments made by this section on—

(A) the targeting of grant funds to cities and urban counties having the highest level or degree of economic distress;

(B) the distribution of grants funds among regions of the United States;

(C) the number and types of projects receiving grants;

(D) the per capita funding levels for each city, urban county, or identifiable community described in subsection (p) of such section 119, receiving assistance under such section 119; and

(E) the stimulation of the maximum economic development activity.

(h) Regulations.—The Secretary of Housing and Urban Development shall issue such regulations as may be necessary to carry out the amendments made by this section. Such regulations shall be published for comment in the Federal Register not later than 60 days after the date of enactment of this Act. The provisions of subsection (d), and of section 119(d)(1)(D), section 119(d)(3), and section 119(d)(4) of the Housing and Community Development Act of 1974, shall take effect on the date of enactment of this Act.

(i) Applicability.—The amendments made by this section shall be applicable to the making of urban development action grants that have not received the preliminary approval of the Secretary of Housing and Urban Development before the date on which final regulations issued by the Secretary under subsection (h) become effective. For the fiscal year in which the amendments made by this section become applicable, such amendments shall only apply with respect to the aggregate amount awarded for such grants on or after such effective date.

(j) Fiscal Year 1986 Competitions.—Notwithstanding any other provision of law, the Secretary of Housing and Urban Development shall hold—

(1) 2 competitions for grants under section 119(d)(1) for cities not described in the first sentence of subsection (i) of such section and urban counties; and

(2) 1 competition for such grants for cities described in the first sentence of subsection (i) of such section,

between April 15, 1986, and October 1, 1986.

### SEC. 143. PROHIBITION ON USE OF URBAN DEVELOPMENT ACTION GRANTS FOR BUSINESS RELOCATIONS.

Section 119(h) of the Housing and Community Development Act of 1974 is amended—

(1) by inserting after the subsection designation the following: "(1) Speculative projects.—";

(2) by adding at the end of paragraph (1), as so redesignated, the following new sentence: "The provisions of this paragraph shall apply only to projects that do not have identified intended occupants."; and

(3) by adding at the end thereof the following new paragraphs:

"(2) Projects With Identified Intended Occupants.—No assistance may be provided or utilized under this section for any project with identified intended occupants that is likely to facilitate—

"(A) a relocation of any operation of an industrial or commercial plant or facility or other business establishment—

"(i) from any city, urban county, or identifiable community described in subsection (p), that is eligible for assistance under this section; and

"(ii) to the city, urban county, or identifiable community described in subsection (p), in which the project is located; or

"(B) an expansion of any such operation that results in a reduction of any such operation in any city, county, or community described in subparagraph (A)(i).

"(3) SIGNIFICANT AND ADVERSE EFFECT.—The restrictions established in paragraph (2) shall not apply if the Secretary determines that the relocation or expansion does not significantly and adversely affect the employment or economic base of the city, county, or community from which the relocation or expansion occurs.

"(4) DEFINITION.—For purposes of this subsection, the term 'operation' includes any plant, equipment, facility, position, employment opportunity, production capacity, or product line.

"(5) REGULATIONS.—Not later than 60 days after the date of enactment of the Housing Act of 1986, the Secretary shall issue such regulations as may be necessary to carry out the provisions of this subsection. Such regulations shall include specific criteria to be used by the Secretary in determining whether there is a significant and adverse effect under paragraph (3).".

### SEC. 144. CDBG AUTHORIZATION.

The second sentence of section 103 of the Housing and Community Development Act of 1974 is amended by inserting "and such sums as may be necessary for fiscal year 1987" before the period.

### SEC. 145. URBAN HOMESTEADING.

The first sentence of section 810(k) of the Housing and Community Development Act of 1974 is amended by inserting before the period at the end thereof the following: ", fiscal year 1986, and fiscal year 1987".

### SEC. 146. REHABILITATION LOAN FEES.

Section 312(g) of the Housing Act of 1964 is amended by adding at the end thereof the following new sentences: "No risk premium or loan fee may be assessed or collected by or for the Secretary or any other Federal agency on or with respect to a loan made under this section.

**SEC. 147. NEIGHBORHOOD REINVESTMENT CORPORATION.**

(a) AUTHORIZATION.—Section 608(a) of the Neighborhood Reinvestment Corporation Act is amended by inserting before the period at the end thereof the following: ", fiscal year 1986, and fiscal year 1987".

(b) TECHNICAL AMENDMENT.—Section 604 of such Act is amended—

(1) by inserting before the semicolon in subsection (a)(1) the following: "or a member of the Federal Home Loan Bank Board to be designated by the Chairman";

(2) by striking out subsection (a)(3) and inserting in lieu thereof the following: "(3) the Chairman of the Board of Governors of the Federal Reserve System, or a member of the Board of Governors of the Federal Reserve System to be designated by the Chairman;";

(3) by inserting before the semicolon in subsection (a)(4) the following: "or the appointive member of the Board of Directors of the Federal Deposit Insurance Corporation if so designated by the Chairman"; and

(4) by striking out "Administrator" in subsection (a)(6) and inserting in lieu thereof the word "Chairman"; and by inserting after "Administration" the following: "or a member of the Board of the National Credit Union Administration to be designated by the Chairman.".

**SEC. 148. NEIGHBORHOOD DEVELOPMENT DEMONSTRATION PROGRAM.**

Section 123(g) of the Housing and Urban-Rural Recovery Act of 1983 is amended by inserting before the period at the end thereof the following: ", and such sums as may be necessary for fiscal years 1986 and 1987".

## Subtitle D—Miscellaneous Program Amendments

**SEC. 161. STUDIES UNDER NATIONAL FLOOD INSURANCE PROGRAM.**

Section 1376(c) of the National Flood Insurance Act of 1968 is amended by inserting before the period at the end thereof the following: ", fiscal year 1986, and fiscal year 1987".

**SEC. 162. COLLECTION OF CERTAIN DATA.**

(a) IN GENERAL.—The Secretary of Housing and Urban Development and the Secretary of Agriculture shall each collect, not less than annually, data on the racial and ethnic characteristics of persons eligible for, assisted, or otherwise benefiting under each community development, housing assistance, and mortgage and loan insurance and guarantee program administered by such Secretary. Such data may be collected on a building by building basis if the Secretary involved determines such collection to be appropriate.

(b) REPORTS TO CONGRESS.—The Secretary of Housing and Urban Development and the Secretary of Agriculture shall each include in the annual report of such Secretary to the Congress a summary and evaluation of the data collected by such Secretary under subsection (a) during the preceding year.

**SEC. 163. SOLAR ENERGY AND ENERGY CONSERVATION BANK.**

Section 522(a) of the Solar Energy and Energy Conservation Bank Act is amended by striking out "year 1985" and inserting in lieu thereof "years 1986 and 1987".

**SEC. 164. RESEARCH AUTHORIZATION.**

The second sentence of section 501 of the Housing and Urban Development Act of 1970 is amended by inserting before the period at the end thereof the following: ", fiscal year 1986, and fiscal year 1987".

# TITLE II—HOUSING ASSISTANCE

## Subtitle A—Programs Under United States Housing Act of 1937

**SEC. 201. LOWER INCOME HOUSING AUTHORIZATION.**

(a) Aggregate Budget Authority.—Section 5(c)(6) of the United States Housing Act of 1937 is amended by adding at the end thereof the following new sentence: "The aggregate amount of budget authority that may be obligated for contracts for annual contributions is increased by such sums as may be approved in appropriation Acts for fiscal years 1986 and 1987.".

(b) Utilization of Budget Authority.—Section 5(c)(7) of the United States Housing Act of 1937 is amended to read as follows:

"(7)(A) Any amount available for Indian housing under subsection (a) that is recaptured shall be available for reuse for such housing notwithstanding any other provision of law.

"(B) Any amount available for the conversion of a project to assistance under section 8(b)(1), if not required for such purpose, shall ~~be used for assistance under~~ section 8(b)(1).".

**SEC. 202. SECTION 8 ASSISTANCE.**

(a) Contracts for Existing Dwelling Units.—The first sentence of section 8(b)(1) of the United States Housing Act of 1937 is amended by inserting ", which shall be for 15 years," after "annual contributions contracts".

(b) Public Housing Agency Fees.—

(1) Section 8(b) of the United States Housing Act of 1937 is amended by adding at the end thereof the following new paragraph:

"(2) The method of calculation, the preliminary fee, and the percentage established for administrative fees paid to a public housing agency administering a contract under this subsection shall be the method of calculation, the preliminary fee, and the percentage established by the Secretary before January 1, 1985, and in effect on such date.".

(2) The amendment made by this subsection shall be applicable to administrative fees payable with respect to the administrative activities of a public housing agency after the date of enactment of this Act.

(c) FAIR MARKET RENTALS.—Section 8(c)(1) of the United States Housing Act of 1937 is amended by inserting before the last sentence the following new sentence: "Each fair market rental in effect under this subsection shall be adjusted to be effective on October 1 of each year to reflect changes, based on the most recent available data trended so the rentals will be current for the year to which they apply, of rents for existing or newly constructed rental dwelling units, as the case may be, of various sizes and types in the market area suitable for occupancy by persons assisted under this section.".

### SEC. 203. RENTAL REHABILITATION AND DEVELOPMENT GRANTS.

(a) AUTHORIZATION.—Section 17(a) of the United States Housing Act of 1937 is amended by adding at the end thereof the following new paragraph:

"(4) ADDITIONAL AUTHORIZATION.—There are authorized to be appropriated for rental rehabilitation and for development grants such sums as may be necessary for fiscal years 1986 and 1987.".

(b) ELIGIBILITY.—Section 17(k)(4) of the United States Housing Act of 1937 is amended—

(1) by inserting "privately owned" before "real property";

(2) by inserting "(A)" after "includes"; and

(3) by inserting before the semicolon at the end thereof the following: ", and (B) housing which is owned by a State or locally chartered, neighborhood based, nonprofit organization the primary purpose of which is the provision and improvement of housing".

(c) RENTAL REHABILITATION.—

(1) The last sentence of section 17(b) of the United States Housing Act of 1937 is amended by striking out all after "assistance under this section" and inserting in lieu thereof a period.

(2) The second sentence of section 17(e)(1) of such Act is amended by striking out all that follows "subsection (b)(2)" and inserting in lieu thereof a period.

### SEC. 204. PREVENTING FRAUD AND ABUSE IN HOUSING AND URBAN DEVELOPMENT PROGRAMS.

(a) IN GENERAL.—As a condition of initial or continuing eligibility for participation in any program of the Department of Housing and Urban Development involving loans, grants, interest or rental assistance of any kind, or mortgage or loan insurance, and to assure that the level of benefits provided under these programs is proper, the Secretary may require that an applicant or participant (including members of an applicant's or participant's household) disclose his or her social security number or employer identification number to the Secretary.

(b) Direct Benefits.—As a condition of initial or continuing eligibility for participation in any program of the Department of Housing and Urban Development involving initial and periodic review of an applicant's or participant's income, and to assure that the level of benefits provided under the program is correct, the Secretary may require an applicant or participant (including members of an applicant's or participant's household) to sign a consent form approved by the Secretary authorizing the Secretary, or the public housing agency or owner responsible for determining eligibility or level of benefits to verify and use any information pertinent to the applicant's or participant's eligibility or level of benefit.

(c) Treatment of Information.—All applicants for and participants in programs covered by this section shall be notified at the time of application, and periodically thereafter, that information authorized to be made available under this section will be requested and used. Any individually identifiable information received by the Secretary under this section shall be subject to the requirements of section 552a of title 5,

United States Code, and the Secretary may release any such information to a public housing agency or owner only if the agency or owner agrees that the information is subject to these requirements.

(d) Verification.—To protect applicants for and participants in programs covered by subsection (b), a Federal, State, or local agency or owner receiving such information may not terminate, deny, suspend, or reduce any benefits of an individual, until the agency or owner has taken appropriate steps to independently verify information relating to—

(1) the amount of the assets or income involved,

(2) whether the individual actually has (or had) access to the assets or income for his or her own use, and

(3) the period or periods when the individual actually had the assets or income.

Before any termination, denial, suspension, or reduction of benefits is taken on the basis of information received under this section, an applicant or participant shall have the right to obtain, examine, and correct available documents and information which the Secretary, public housing agency, or owner responsible for determining eligibility or level of benefits has received under this section.

(e) Disclosure of Information.—The State agency charged with the administration of a State unemployment compensation law under title III of the Social Security Act—

(1) shall disclose, upon request and on a reimbursable basis, to officers or employees of the Department of Housing and Urban Development and to officers or employees of any public housing agency responsible for determining the eligibility and level of benefits of particular applicants or participants (including members of an applicant's or participant's household), any of the following information contained in the records of the State agency—

(A) wage information, not including return information as defined in section 6103(b)(2) of title 26, United States Code,

(B) whether an individual is receiving, has received, or has made application for, unemployment compensation, and the amount of any such compensation being received (or to be received) by the individual, and

(C) the current (or most recent) home address of the individual, and

(2) shall establish such safeguards as are necessary (as determined by the Secretary of Labor in regulations) to insure that information disclosed under subparagraph (A) shall be subject to the requirements of section 552a of title 5, United States Code, and shall be used only for purposes of determining an individual's eligibility for benefits, or the amount of benefits, under the programs of the Department of Housing and Urban Development.

(f) SANCTIONS.—The Secretary of Labor, in consultation with the Secretary of Housing and Urban Development, shall prescribe appropriate sanctions to be imposed for failure to comply substantially with the requirements of subsection (c).

(g) DEFINITIONS.—As used in this section:

(1) The term "Secretary" means the Secretary of Housing and Urban Development.

(2) The terms "applicant" and "participant" shall have such meaning as the Secretary by regulation shall prescribe. Such terms shall not include persons whose involvement is only in their official capacity, such as State or local government officials and officers of lending institutions.

(3) The term "public housing agency" means any agency described in section 3(b)(6) of the United States Housing Act of 1937.

### SEC. 205. PUBLIC HOUSING RESIDENT MANAGEMENT.

The United States Housing Act of 1937 is amended by adding at the end the following new section:

### "PUBLIC HOUSING RESIDENT MANAGEMENT

"SEC. 20. (a) PURPOSE.—The purpose of this section is to encourage increased resident management of public housing projects, as a means of improving existing living conditions in public housing projects, by providing increased flexibility for public housing projects that are managed by residents by—

"(1) permitting the retention, and use for certain purposes, of any revenues exceeding operating and project costs; and

"(2) providing funding, from amounts otherwise available, for technical assistance to promote formation and development of resident management entities.

"(b) PROGRAM REQUIREMENTS.—

"(1) RESIDENT COUNCIL.—As a condition of entering into a resident management program, the elected resident council of a public housing project shall approve the establishment of a resident management corporation. The resident management corporation and the resident council may be the same organization, if the organization complies with the requirements applicable to both the corporation and council. If there is no elected resident council, a majority of the households of the public housing project shall approve the establishment of a resident council to determine the feasibility

of establishing a resident management corporation to manage the project.

"(2) PUBLIC HOUSING MANAGEMENT SPECIALIST.—The resident council of a public housing project, in cooperation with the public housing agency, shall select a qualified public housing management specialist to assist in determining the feasibility of, and to help establish, a resident management corporation and to provide training and other duties agreed to in the daily operations of the project.

"(3) BONDING AND INSURANCE.—Before assuming any management responsibility for a public housing project, the resident management corporation shall provide fidelity bonding and insurance, or equivalent protection, in accordance with regulations and requirements of the Secretary and the public housing agency. Such bonding and insurance, or its equivalent, shall be adequate to protect the Secretary and the public housing agency against loss, theft, embezzlement, or fraudulent acts on the part of the resident management corporation or its employees.

"(4) MANAGEMENT RESPONSIBILITIES.—A resident management corporation that qualifies under this section, and that supplies insurance and bonding or equivalent protection sufficient to the Secretary and the public housing agency, shall enter into a contract with the public housing agency establishing the respective management rights and responsibilities of the corporation and the public housing agency. Such contract may include specific terms governing management personnel and compensation, access to public housing projects records, submission of and adherence to budgets, rent collection procedures, tenant income verification, tenant eligibility determinations, tenant eviction, the acquisition of supplies and materials, and such other matters as may be appropriate.

"(5) Annual audit.—The books and records of a resident management corporation operating a public housing project shall be audited annually by a certified public accountant. A written report of each audit shall be forwarded to the public housing agency and the Secretary.

"(c) Comprehensive Improvement Assistance.—Public housing projects managed by resident management corporations may be provided with comprehensive improvement assistance under section 14 for purposes of renovating such projects in accordance with such section. If such renovation activities (including the planning and architectural design of the rehabilitation) are administered by a resident management corporation, the public housing agency involved

may not retain, for any administrative or other reason, any portion of the assistance provided pursuant to this subsection.

"(d) Operating Subsidy and Project Income.—

"(1) Calculation of operating subsidy.—Notwithstanding any provision of section 9 or any regulation under such section, and subject to the exception provided in paragraph (3), the portion of the operating subsidy received by a public housing agency under section 9 that is allocated to a public housing project managed by a resident management corporation shall not be less than the public housing agency per unit monthly amount provided in the previous year as determined in an individual project basis.

"(2) Contract requirements.—Any contract for management of a public housing project entered into by a public housing agency and a resident management corporation shall specify the amount of income expected to be derived from the project itself (from sources such as rents and charges) and the amount of income funds to be provided to the project from the other sources of income of the public housing agency (such as operating subsidy under section 9, interest income, administrative fees, and rents).

"(3) Calculation of total income.—

"(A) Subject to subparagraph (B), the amount of funds provided by a public housing agency to a public housing project managed by a resident management corporation may not be reduced during the 3-year period beginning on the date of the enactment of the Housing Act of 1986 or on any later date on which a resident management corporation is first established for the project.

"(B) If the total income of a public housing agency (including the operating subsidy provided to the public housing agency under section 9) is reduced or increased, the income provided by the public housing agency to a public housing project managed by a resident management corporation shall be reduced or increased in proportion to the reduction or increase in the total income of the public housing agency, except that any reduction in operating subsidy that occurs as a result of fraud, waste, or mismanagement by the public housing agency shall not affect the funds provided to the resident management corporation.

"(4) RETENTION OF EXCESS REVENUES.—

"(A) Any income generated by a resident management corporation of a public housing

project that exceeds the income estimated for purposes of this subsection shall be excluded in subsequent years in calculating (i) the operating subsidies provided to the public housing agency under section 9; and (ii) the funds provided by the public housing agency to the resident management corporation.

"(B) Any revenues retained by a resident management corporation under subparagraph (A) shall be used for purposes of improving the maintenance and operation of the public housing project, for establishing business enterprises that employ residents of public housing, or for acquiring additional dwelling units for lower income families.

"(e) RESIDENT MANAGEMENT TECHNICAL ASSISTANCE AND TRAINING.—

"(1) FINANCIAL ASSISTANCE.—To the extent budget authority is available for section 14, the Secretary shall provide financial assistance to resident management corporations or resident councils that obtain, by contract or otherwise, technical assistance for the development of resident management entities, including the formation of such entities, the development of the management capability of newly formed or existing entities, the identification of the social support needs of residents of public housing projects, and the securing of such support.

"(2) LIMITATION ON ASSISTANCE.—The financial assistance provided under this subsection with respect to any public housing project may not exceed $100,000.

"(3) FUNDING.—Of the amounts available for financial assistance under section 14 for fiscal year 1987, the Secretary may use not more than $1,500,000 to carry out this subsection.".

## Subtitle B—Other Housing Assistance Programs

### SEC. 221. MANAGEMENT AND PRESERVATION OF HUD-OWNED MULTIFAMILY HOUSING PROJECTS.

(a) GOALS.—Section 203(a) of the Housing and Community Development Amendments of 1978 is amended by striking out "(a)" and all that follows through the semicolon at the end of paragraph (1) and inserting in lieu thereof the following:

"(a) The Secretary of Housing and Urban Development (hereafter in this section referred to as the 'Secretary') shall manage and dispose of multifamily housing projects that are owned by, or in the possession of, the Secretary, and shall exercise such powers as he or she may possess under the

mortgage or regulatory agreement as to multifamily housing projects whose mortgages are held by the Secretary, in a manner that is consistent with the National Housing Act and this section and that will, in the least costly fashion among the reasonable alternatives available, further the goals of—

"(1) preserving so that they are available to and affordable by low- and moderate-income persons—

"(A) all units in multifamily housing projects that are subsidized or formerly subsidized projects;

"(B) in multifamily housing projects other than subsidized or formerly subsidized projects, at least the units that are occupied by low- or moderate-income persons at the time of acquisition of the mortgage by the Secretary;"

(b) MANAGEMENT SERVICES.—Section 203(b)(2) of the Housing and Community Development Amendments of 1978 is amended by inserting ", or in the possession of," after "owned by".

(c) DISPLACEMENT PROTECTION.—Section 203(d)(1) of the Housing and Community Development Amendments of 1978 is amended by inserting ", or in the possession of," after "owned by".

(d) LIMITATIONS ON CERTAIN PROJECT AND MORTGAGE SALES.—Section 203 of the Housing and Community Development Amendments of 1978 is amended—

(1) by redesignating subsections (f) and (g) as subsections (h) and (i), respectively; and

(2) by inserting before such subsection (h) the following new subsections:

"(f) In determining the manner in which a formerly subsidized project will be disposed of, the Secretary will seek, to the extent feasible in the light of current circumstances, to ensure that such project will continue to provide rental housing on terms determined reasonably by the Secretary to be not less advantageous to existing and future tenants as the terms required by the regulatory agreement and subsidy arrangements in effect prior to the acquisition of the mortgage on such project by the Secretary.

"(g) The Secretary may not sell any mortgage held by the Secretary on a subsidized project unless such sale is made as part of a transaction that will ensure that such project will continue to provide rental housing on terms not less advantageous to existing and future tenants as the terms required by the mortgage and regulatory agreement in effect prior to the assignment of the mortgage on such project to the Secretary."

(e) SUBSIDIZED PROJECTS.—Section 203(h) of the Housing and Community Development Amendments of 1978, as so redesignated in this section, is amended—

(1) by inserting "(1)" after the subsection designation; and

(2) by adding at the end thereof the following new paragraph:

"(2) For the purpose of this section, the term 'subsidized project' means a multifamily housing project in which not less than 40 percent of the tenants receive the benefits of any of the following assistance programs:

"(A) Below market interest rate mortgages insured under section 221(d)(3) of the National Housing Act.

"(B) Interest reduction payments made in connection with mortgages insured under section 236 of the National Housing Act.

"(C) Rent supplement payments under section 101 of the Housing and Urban Development Act of 1965.

"(D) Direct loans at below market interest rates, pursuant to section 202 of the Housing Act of 1959 or section 312 of the Housing Act of 1964.

"(E) Housing assistance payments pursuant to section 23 of the United States Housing Act of 1937 in effect prior to January 1, 1975, or section 8 of the United States Housing Act of 1937, except payments pursuant to the Section 8 Existing Housing Program (24 CFR Part 882, Subparts A and B), the voucher program under section 8(o) of such Act, or the Loan Management Set-Aside program (24 CFR Part 886, Subpart A).

The term 'formerly subsidized project' means a multifamily housing project owned by the Secretary which was a subsidized project immediately prior to acquisition of the project by the Secretary.".

### SEC. 222. ACQUISITION OF INSURED MULTIFAMILY HOUSING PROJECTS.

Section 207(k) of the National Housing Act is amended by inserting after the second sentence the following new sentence: "In determining the amount to be bid, the Secretary shall act consistently with the goals established in section 203(a) of the Housing and Community Development Amendments of 1978.".

### SEC. 223. TENANT PARTICIPATION IN MULTIFAMILY HOUSING PROJECTS.

(a) APPLICABILITY.—Section 202(a) of the Housing and Community Development Amendments of 1978 is amended by inserting before the period at the end thereof the following: "or section 202 of the Housing Act of 1959".

(b) NOTICE AND COMMENT.—Section 202(b)(1) of the Housing and Community Development Amendments of 1978 is amended—

(1) by striking out "or" the third place it appears;

(2) by inserting after "alterations," the following: "transfer of physical assets, or application for capital improvements loan,"; and

(3) by inserting after "appropriate" the following: "or where the Secretary proposes to sell a mortgage secured by a multifamily housing project".

### SEC. 224. NONDISCRIMINATION AGAINST SECTION 8 CERTIFICATE HOLDERS.

No owner of a subsidized project (as defined in section 203(b)(2) of the Housing and Community Development Amendments of 1978, as amended) shall refuse unreasonably (1) to lease any vacant dwelling unit in the project that rents for an amount not greater than the fair market rent for a comparable unit, as determined by the Secretary under section 8 of the United States Housing Act of 1937, to a holder of a certificate of eligibility under such section solely because of the status of such prospective tenant as a holder of such certificate, and to enter into a housing assistance payments contract respecting such unit, or (2) to lease any vacant dwelling unit in the project to a holder of a voucher under section 8(o) of such Act, and to enter into a voucher contract respecting such unit, solely because of the status of such prospective tenant as holder of such voucher.

**SEC. 225. HOUSING FOR THE ELDERLY AND HANDICAPPED.**

(a) AUTHORIZATION TO ISSUE OBLIGATIONS.—The first sentence of section 202(a)(4)(B)(i) of the Housing Act of 1959 is amended—

(1) by striking out "and" the first place it appears; and

(2) by inserting after "1984," the following: "and to such sums as may be approved in appropriation Acts for fiscal years 1986 and 1987,".

(b) INTEREST RATE ON LOANS.—Section 202(a)(3) of the Housing Act of 1959 is amended—

(1) by inserting "(A)" after "(3)";

(2) by striking out everything after "Secretary" the second place it appears through "loan is made" and inserting in lieu thereof the following: "taking into consideration the average yield, during the three-month period immediately preceding the fiscal year in which the loan is made, on the most recently issued 30-year marketable obligations of the United States"; and

(3) by adding the following new subparagraph at the end thereof:

"(B) At the option of the borrower, a loan under this section may be made and may be processed for a conditional

or firm commitment based on an interest rate not to exceed a rate and allowance determined by the Secretary in accordance with subparagraph (A) using the one-month period immediately prior to the month in which the request for a commitment is submitted.".

(c) INTEREST RATE ON NOTES.—The second sentence of section 202(a)(4)(B)(i) of the Housing Act of 1959 is amended to read as follows: "Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the average yield, during the three-month period immediately preceding the fiscal year in which the loan is made, on the most recently issued 30-year marketable obligations of the United States.".

(d) EFFECTIVE DATE.—The provisions of subsections (b) and (c) of this section shall be effective on October 1, 1986. Notwithstanding any other provision of law, a loan made under section 202 of the Housing Act of 1959 during the period beginning on the date of enactment of this Act until October 1, 1986, shall bear an interest rate plus an allowance adequate in the judgment of the Secretary of Housing and Urban Development to cover administrative costs and probable losses of not to exceed 8 percent per annum.

**SEC. 226. HOUSING FOR THE HANDICAPPED.**

(a) FINDINGS AND PURPOSE.—

(1) The Congress hereby finds that—

(A) housing for nonelderly handicapped families is assisted under section 202 of the Housing Act of 1959 and section 8 of the United States Housing Act of 1937;

(B) the housing programs under such sections are designed and implemented primarily to assist rental housing for elderly and nonelderly families and are often inappropriate for dealing with the specialized needs of the physically impaired, the developmentally disabled, and the chronically mentally ill;

(C) the development of housing for nonelderly handicapped families under such programs is often more expensive than necessary, thereby reducing the number of such families that can be assisted with available funds;

(D) the program under section 202 of the Housing Act of 1959 can continue to provide direct loans to finance group residences and independent apartments for nonelderly handicapped families, but can be made more efficient and less costly by the adoption of standards and procedures applicable only to housing for such families;

(E) the use of the program under section 8 of the United States Housing Act of 1937 to assist rentals for housing for nonelderly handicapped families is time consuming and unnecessarily costly and, in some areas of the Nation, prevents the development of such housing;

(F) the use of the program under section 8 of the United States Housing Act of 1937 to assist rentals for housing for nonelderly handicapped families should be replaced by a more appropriate subsidy mechanism;

(G) both elderly and handicapped housing projects assisted under section 202 of the Housing Act of 1959 will benefit from an increased emphasis on supportive services and a greater use of State and local funds; and

(H) an improved program for nonelderly handicapped families will assist in providing shelter and supportive services for mentally ill persons who might otherwise be homeless.

(2) The purpose of this section is to improve the direct loan program under section 202 of the Housing Act of 1959 to ensure that such program meets the special housing and related needs of nonelderly handicapped families.

(b) HOUSING FOR HANDICAPPED FAMILIES.—

(1) Section 202(h) of the Housing Act of 1959 is amended to read as follows:

"(h)(1) Of the amounts made available in appropriation Acts for loans under subsection (a)(4)(C) for any fiscal year commencing after September 30, 1985, not less than 15 percent shall be available for loans for the development costs of housing for handicapped families. If the amount required for any such fiscal year for approvable applications for loan under this subsection is less than the amount available under this paragraph, the balance shall be made available for loans under other provisions of this section.

"(2) The Secretary shall take such actions as may be necessary to ensure that—

"(A) funds made available under this subsection will be used to support a variety of methods of meeting the needs primarily of nonelderly handicapped families by providing a variety of housing options, ranging from small group homes to independent living complexes; and

"(B) housing for handicapped families assisted under this subsection will provide families occupying units in such housing with an assured range of services specified in subsection (f), will provide such families with opportunities for optimal independent living and

participation in normal daily activities, and will facilitate access by such families to the community at large and to suitable employment opportunities within such community.

"(3)(A) In allocating funds under this subsection, and in processing applications for loans under this section and assistance payments under paragraph (4), the Secretary shall adopt such distinct standards and procedures as the Secretary determines appropriate due to differences between housing for handicapped families and other housing assisted under this section.

"(B) The Secretary may, on a demonstration basis, determine the feasibility and desirability of reducing processing time and costs for housing for handicapped families by limiting project design to a small number of prototype designs. Any such demonstration shall be limited to the 3-year period following the date of enactment of the Housing Act of 1986, may only involve projects whose sponsors consent to participation in such demonstration, and shall be described in a report submitted by the Secretary to the Congress following completion of such demonstration.

"(4)(A) The Secretary shall, to the extent approved in appropriation Acts, enter into contracts with owners of housing for handicapped families receiving loans under, or meeting the requirements of, this section to make monthly payments to cover any part of the costs attributed to units occupied (or, as approved by the Secretary, held for occupancy) by lower income families that is not met from project income. The annual contract amount for any project shall not exceed the sum of the initial annual project rentals for all units and any initial utility allowances for such units, as approved by the Secretary. Any contract amounts not used by a project in any year shall remain available to the project until the expiration of the contract. The term of a contract entered into under this subparagraph shall be 240 months. The annual contract amount may be adjusted by the Secretary if the sum of the project income and the amount of assistance payments available under this subparagraph are inadequate to provide for reasonable project costs. In the case of an intermediate care facility in which there reside families assisted under title XIX of the Social Security Act, project income under this subparagraph shall include the same amount as if such families were being assisted under title XVI of the Social Security Act.

"(B) The Secretary shall approve initial project rentals for any project assisted under this subsection based on the determination of the Secretary of the total actual necessary and reasonable costs of developing and operating the project, excluding the costs of the assured range of services under subsection (f), taking into consideration the need to contain

costs to the extent practicable and consistent with the purposes of the project and this section.

"(C) The Secretary shall require that, during the term of each contract entered into under subparagraph (A), all units in a project assisted under this subsection shall be made available for occupancy by lower income families, as such term is defined in section 3(b)(2) of the United States Housing Act of 1937. The rent payment required of a lower income family shall be determined in accordance with section 3(a) of such Act, except that the gross income of a family occupying an intermediate care facility assisted under title XIX of the Social Security Act shall be the same amount as if the family were being assisted under title XVI of the Social Security Act.

"(D) The Secretary shall coordinate the processing of an application for a loan for housing for handicapped families under this section and the processing of an application for assistance payments under this paragraph for such housing.".

(2) Section 202(d) of the Housing Act of 1959 is amended by adding at the end thereof the following new paragraphs:

"(9) The term 'housing for handicapped families' means housing and related facilities to be occupied by handicapped families who are nonelderly handicapped families.

"(10) The term 'nonelderly handicapped families' means elderly or handicapped families, the head of which (and spouse, if any) is less than 62 years of age at the time of initial occupancy of a project assisted under this section.".

(3) Section 202(c)(3) of the Housing Act of 1959 is amended by inserting after "section" the following: "and designed for dwelling use by 12 or more elderly or handicapped families".

(c) SUPPORTIVE SERVICES FOR ELDERLY AND HANDICAPPED FAMILIES.—Section 202(f) of the Housing Act of 1959 is amended—

(1) by inserting "(1)" after the subsection designation; and

(2) by adding at the end thereof the following new paragraph:

"(2) Each applicant for a loan under this section for housing and related facilities shall submit with the application a supportive services plan describing—

"(A) the special needs of residents which such housing and facilities are intended to serve;

"(B) the range of necessary services to be provided to the families occupying such housing;

"(C) the manner in which such services will be provided to such families; and

"(D) the extent of State and local public and private funds available to assist in the provision of such services.".

(d) TERMINATION OF SECTION 8 ASSISTANCE.—On and after the first date that amounts approved in an appropriation Act for any fiscal year become available for contracts under section 202(h)(4)(A) of the Housing Act of 1959, as amended by subsection (b) of this section, no project for handicapped (primarily nonelderly) families approved for such fiscal year pursuant to section 202 of such Act shall be provided assistance payments under section 8 of the United States Housing Act of 1937, except pursuant to a reservation for a contract to make such assistance payments that was made before the first date that amounts for contracts under such section 202(h)(4)(A) became available.

(e) IMPLEMENTATION.—Not later than the expiration of the 120-day period following the date of enactment of this Act, the Secretary of Housing and Urban Development shall, to the extent amounts are approved in an appropriation Act for use under section 202(h)(4)(A) of the Housing Act of 1959 for fiscal year 1986, publish in the Federal Register a notice of fund availability to implement the provisions of, and amendments made by, this section. The Secretary shall issue such rules as may be necessary to carry out such provisions and amendments for fiscal year 1987 and thereafter.

(f) Effective Date and Applicability.—

(1) Except as otherwise provided in this section, the provisions of, and amendments made by, this section shall not apply with respect to projects with loans or loan reservations made under section 202 of the Housing Act of 1959 before the implementation date under subsection (e).

(2) Notwithstanding paragraph (1), the Secretary may apply the provisions of, and amendments made by, this section to any project in order to facilitate the development of such project in a timely manner.

### SEC. 227. SECTION 235 HOMEOWNERSHIP PROGRAM.

Section 235(h)(1) of the National Housing Act is amended by adding at the end thereof the following: "After the date of enactment of the Housing Act of 1986, the Secretary may insure mortgages and contract to make assistance payments in accordance with the fourth proviso under the heading 'Annual Contributions for Assisted Housing' in Public Law 99-160.".

### SEC. 228. CONGREGATE SERVICES.

Section 411(a)(6) of the Congregate Housing Services Act of 1978 is amended by inserting before the comma the following: "and fiscal years 1986 and 1987".

## TITLE III—RURAL HOUSING

### SEC. 301. PROGRAM AUTHORIZATIONS.

(a) Insurance and Guarantee Authority.—Section 513(a)(1) of the Housing Act of 1949 is amended to read as follows:

"(a)(1) The Secretary may insure and guarantee loans under this title—

"(A) during fiscal year 1986, in amounts provided by Public Law 99-190, as reduced by the order issued by the President under section 252 of the Balanced Budget and Emergency Deficit Control Act on February 1, 1986; and

"(B) during fiscal year 1987 in amounts not to exceed such sums as may be approved in an appropriation Act.".

(b) Authorization of Appropriations.—Section 513(b) of the Housing Act of 1949 is amended to read as follows:

"(b) There are authorized to be appropriated for fiscal year 1987, and to remain available until expended—

"(1) for grants under section 504, such sums as may be necessary;

"(2) for purposes of section 509(c), such sums as may be necessary;

"(3) such sums as may be necessary to meet payments on notes or other obligations issued by the Secretary under section 511 equal to—

"(A) the aggregate of the contributions made by the Secretary in the form of credits on principal due on loans made pursuant to section 503; and

"(B) the interest due on a similar sum represented by notes or other obligations issued by the Secretary;

"(4) for financial assistance under section 516, such sums as may be necessary;

"(5) for grants under section 523(f), such sums as may be necessary;

"(6) for grants under section 533, such sums as may be necessary; and

"(7) such sums as may be necessary for the Secretary to administer the provisions of sections 235 and 236 of the National Housing Act and section 8 of the United States Housing Act of 1937.".

(c) Rental Assistance Payment Contracts.—Section 513(c) of the Housing Act of 1949 is amended to read as follows:

"(c) The Secretary, to the extent approved in appropriation Acts for fiscal years 1986 and 1987, may enter into

rental assistance payment contracts under section 521(a)(2)(A) aggregating such sums as may be approved in appropriation Acts. Such authority as is approved in appropriation Acts shall be used by the Secretary to renew rental assistance payment contracts that expire during such fiscal year and to make additional rental assistance payment contracts for existing or newly constructed dwelling units.".

### SEC. 362. RURAL AREA CLASSIFICATION.

Section 520 of the Housing Act of 1949 is amended by striking out "June 6, 1986" in the last sentence and inserting in lieu thereof "September 30, 1987".

### SEC. 363. CONVENTIONAL FINANCING DEMONSTRATION.

(a) Section 502 Program.—Section 502 of the Housing Act of 1949 is amended by adding at the end thereof the following:

"(g) The Secretary shall, on a demonstration basis, make interest subsidy payments to lenders with respect to conventional loans to borrowers meeting the income limitations applicable under this section, to finance the purchase of dwellings which do not exceed the size and amenity limits under subsection (f), and which are located in rural areas. The amount of such payments shall be the amount necessary to reduce the monthly mortgage payment to the payment which would be required on a loan made under this section by the Secretary. Not more than 200 units located in each of 5 geographic regions may be included in the demonstration under this subsection. Funds that have been made available for use under this subsection which may remain unobligated in the subsequent fiscal year shall be made available for any other use under this section.".

(b) SECTION 515 PROGRAM.—Section 515 of such Act is amended by adding at the end thereof the following:

"(q) The Secretary may, on a demonstration basis, make interest subsidy payments to lenders with respect to conventional loans to finance housing for tenants eligible under this section. The amount of such payments shall be the amount necessary to reduce the monthly mortgage payment to the payment which would be required on a loan made under this section by the Secretary.".

### SEC. 304. MANUFACTURED HOUSING.

Section 502(e) is amended by adding at the end thereof the following:

"(3) A loan which may be made or insured under this section with respect to a manufactured home or a manufactured home and lot shall be repayable over the same period as would be applicable under section 2 of the National Housing Act.".

### SEC. 305. SECTION 502 LOANS FOR SINGLE PERSONS.

Section 502(a) of the Housing Act of 1949 is amended by adding at the end thereof the following:

"(3) A loan may be made or insured under this section to any single individual only if that individual (A) resides on the property with his or her family, (B) is an elderly handicapped person, or (C) is paying more than 50 percent of his or her income for housing.".

### SEC. 306. AMENDMENT TO SECTION 502(d).

Section 502(d) of the Housing Act of 1949 is amended by adding at the end thereof the following:

"For the purpose of this subsection, the term 'very low-income families or persons' means those families or persons whose incomes do not exceed the respective levels established for very low-income families under the United States Housing Act of 1937, or those families and persons whose incomes do not exceed 50 per centum of the median income for all nonmetropolitan areas in the State.".

# TITLE IV—SHELTER PROGRAM

## PART A—GENERAL PROVISIONS

### SEC. 401. SHORT TITLE.

This title may be cited as the "Emergency Food and Shelter Act of 1986".

### SEC. 402. DEFINITIONS.

For the purpose of this title—

(1) the term "Board" means the Emergency Food and Shelter Program National Board;

(2) the term "Director" means the Director of the Federal Emergency Management Agency;

(3) the term "emergency shelter" means a facility all or a part of which is used or designed to be used to provide temporary housing;

(4) the term "homeless" means families and individuals who are poor and have no access to either traditional or permanent housing;

(5) the term "local government" means a unit of general purpose local government;

(6) the term "locality" means the geographical area within the jurisdiction of a local government;

(7) the term "private nonprofit organization" means a secular or religious organization described in section 501(c) of the Internal Revenue Code of 1954 which is exempt from taxation under subtitle A of such Code, and which has an accounting system and a voluntary board, and which practices nondiscrimination in the provision of assistance;

(8) the term "Secretary" means the Secretary of Housing and Urban Development; and

(9) the term "State" means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, or any territory or possession of the United States.

### SEC. 403. EMERGENCY FOOD AND SHELTER PROGRAM NATIONAL BOARD.

(a) Establishment of National Board.—There is established to carry out the provisions of this title the Emergency Food and Shelter Program National Board. The Secretary of Housing and Urban Development shall enter into an interagency agreement with the Federal Emergency Management Agency for the purpose of constituting the Board in accordance with subsection (b) and administering the program under this title.

(b) Board of Directors.—The Board shall consist of 6 members who shall be appointed by the Secretary of Housing and Urban Development not later than 30 days after the date of enactment of this Act, one from those individuals nominated by each of the following:

(1) The United Way of America.

(2) The Salvation Army.

(3) The National Council of Churches of Christ in the U.S.A.

(4) Catholic Charities U.S.A.

(5) The Council of Jewish Federations, Inc.

(6) The American Red Cross.

In addition, the Secretary of each of the Departments of Housing and Urban Development, Agriculture, and Health and Human Services, and the Federal Emergency Management Agency shall be members of the Board ex officio. The Board shall select one individual who has demonstrated a commitment to addressing homelessness and hunger from among those recommended by individuals and organizations active in the provision of shelter, food, and supportive services for the homeless to be an additional member of the Board.

(c) ELECTION OF CHAIRMAN AND VICE CHAIRMAN.—The Board shall elect from among its members a Chairman and a Vice Chairman and such other officials as it deems appropriate in the conduct of its affairs.

(d) OTHER ACTIVITIES OF THE BOARD.—Except as otherwise specifically provided by this title, the Board shall establish its own procedures and policies for the conduct of its affairs.

(e) TERMINATION OF THE BOARD.—The Board shall terminate its activities and cease to exist on October 1, 1991.

**SEC. 404. LOCAL BOARDS.**

(a) ESTABLISHMENT.—Each locality designated by the Board shall constitute a local board for the purpose of determining how program funds allotted to the locality will be distributed. The local board shall consist, to the extent practi-

cable, of representatives of the same organizations as the national board, except that the mayor or other appropriate heads of government will replace the Federal members. The chair of the local board shall be elected by a majority of the members of the local board. Local boards are encouraged to expand participation of other private nonprofit organizations on the local board.

(b) RESPONSIBILITIES.—Each local board shall—

(1) determine which private nonprofit organizations or public organizations of the local government in the individual locality shall receive grants to act as service providers;

(2) monitor recipient service providers for program compliance;

(3) reallocate funds among service providers;

(4) ensure proper reporting; and

(5) coordinate with other Federal, State, and local government assistance programs available in the locality.

**SEC. 405. ROLE OF FEMA.**

(a) IN GENERAL.—The Director of the Emergency Management Agency shall provide the Board administrative support and act as Federal liaison to the Board.

(b) SPECIFIC SUPPORT ACTIVITIES.—The Director shall—

(1) make available to the Board, upon request, the services of the Agency's legal counsel and inspector general;

(2) assign clerical personnel to the Board on a temporary basis; and

(3) conduct audits of the Board annually and at such other times as may be appropriate.

### SEC. 406. RECORDS AND AUDIT OF BOARD AND RECIPIENTS OF ASSISTANCE.

(a) ANNUAL INDEPENDENT AUDIT OF BOARD.—

(1) The accounts of the Board shall be audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The audits shall be conducted at the place or places where the accounts of the Board are normally kept. All books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Board and necessary to facilitate the audits shall be made available to the person or persons conducting the audits, and full facilities for verifying transactions with any assets held by depositories, fiscal agents, and custodians shall be afforded to such person or persons.

(2) The report of each such independent audit shall be included in the annual report required in section 407. Such report shall set forth the scope of the audit and include such statements as are necessary to present fairly the assets and liabilities of the Board, surplus or deficit, with an analysis of the changes during the year, supplemented in reasonable detail by a statement of the income and expenses of the Board during the year, and a statement of the application of funds, together with the opinion of the independent auditor of such statements.

(b) ACCESS TO RECORDS OF RECIPIENTS OF ASSISTANCE.—

(1) Each recipient of assistance under this title shall keep such records as may be reasonably necessary to fully disclose the amount and the disposition by such recipient of the proceeds of such assistance, the total cost of the project or undertaking in connection with which such assistance is given or used, and the amount and nature of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit.

(2) The Board, or any of its duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and

records of the recipient that are pertinent to assistance received under this title.

(c) AUTHORITY OF COMPTROLLER GENERAL.—The Comptroller General of the United States or any of his duly authorized representatives shall also have access to any books, documents, papers, and records of the Board and recipients for such purpose.

**SEC. 407. ANNUAL REPORT.**

The Board shall transmit to the Congress an annual report covering each year in which it conducts activities with funds made available under this title.

## PART B—EMERGENCY FOOD AND SHELTER GRANTS

**SEC. 411. GRANTS BY SECRETARY.**

Not later than 30 days following the date of enactment of a law providing appropriations to carry out this part, the Secretary of Housing and Urban Development shall award a grant for the full amount that Congress appropriates for the program under this part to the Board for the purpose of providing emergency food and shelter to needy individuals through private nonprofit organizations and through units of local government in accordance with section 413.

**SEC. 412. RETENTION OF INTEREST EARNED.**

Interest accrued on the balance of any grant to the Board shall be available to the Board for reallocation, and total administrative costs shall be determined based on total

amount of funds available, including interest and any private contributions which are made to the Board.

**SEC. 413. PURPOSES OF GRANTS.**

(a) ELIGIBLE ACTIVITIES.—Grants to the Board may be used—

(1) to supplement and expand ongoing efforts to provide shelter, food, and supportive services for the homeless with sensitivity to the transition from temporary shelter to permanent homes, and attention to the special needs of the homeless with mental and physical disabilities and illnesses, and to facilitate access for the homeless to other sources of services and benefits;

(2) to promote greater cooperation between the public and private sectors in providing more adequate resources to meet the basic human needs and to engender greater respect for the human dignity of the homeless;

(3) to serve, in cooperation with other organizations in order to avoid duplication of effort, as a national forum and a repository of knowledge to aid in the gathering and dissemination of information relating to homelessness;

(4) to strengthen efforts to create more effective and innovative local programs by providing funding for them; and

(5) to conduct minimum rehabilitation of existing mass shelter or mass feeding facilities, but only to the extent necessary to make facilities safe, sanitary, and bring them into compliance with local building codes.

(b) LIMITATIONS ON ACTIVITIES.—The Board may only provide funding provided under this part for—

(1) programs undertaken by nonprofit organizations and units of local government; and

(2) programs that are consistent with the purposes of this title.

The Board may not carry out programs directly.

### SEC. 414. LIMITATION ON CERTAIN COSTS.

Not more than 5 percent of the total appropriation for the emergency food and shelter program each year may be expended for the costs of administration.

### SEC. 415. PROGRAM GUIDELINES.

(a) GUIDELINES.—The Board shall establish written guidelines for carrying out the program under this part, including—

(1) methods for identifying localities with the highest need for emergency food and shelter assistance;

(2) methods for determining amount and distribution to these localities;

(3) eligible program costs, including maximum flexibility in meeting currently existing needs; and

(4) guidelines specifying the responsibilities and reporting requirements of the Board, its recipients, and service providers.

(b) PUBLICATION.—Guidelines established under subsection (a) shall be published annually, and whenever modified, in the Federal Register. The Board shall not be subject to the procedural rulemaking requirements of subchapter II of chapter 5 of title 5, United States Code.

### SEC. 416. PROGRAM AUTHORIZED.

(a) AUTHORIZATION.—To carry out this part, there are authorized to be appropriated $73,000,000 for fiscal year 1987, and such sums as may be necessary for fiscal year 1988.

(b) CARRYOVER.—Any appropriated funds not obligated in a fiscal year shall remain available until expended.

## PART C—TRANSITIONAL HOUSING DEMONSTRATION PROGRAM

### SEC. 421. DEFINITIONS.

For the purpose of this part—

(1) the term "homeless person" means a homeless person, as defined in section 402, who is capable within a reasonable amount of time of living independently;

(2) the term "housing for homeless persons" means a structure suitable for the provision of housing

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and supportive services in an appropriate group setting;

(3) the term "recipient" means any governmental or private nonprofit entity that is approved by the Secretary as to financial responsibility;

(4) the term "operating costs" means expenses incurred by a recipient operating housing for homeless persons under this part with respect to—

(A) the administration, maintenance, repair, and security of such housing;

(B) utilities, fuel, furnishings, and equipment for such housing;

(C) the conducting of the assessment required in section 424(c)(2); and

(D) the provision of supportive services to the residents of such housing; and

(5) the term "supportive services" means assistance in obtaining permanent housing, medical and psychological counseling and supervision, employment counseling, nutritional counseling, and such other services essential for maintaining independent living as the Secretary determines to be appropriate. Such term includes the provision of assistance to residents of housing for homeless persons in obtaining other Federal, State, and local assistance available for such persons, including mental health benefits, employment counseling, and medical assistance.

### SEC. 422. ESTABLISHMENT OF DEMONSTRATION PROGRAM.

(a) In General.—The Secretary shall carry out a program in accordance with the provisions of this part to develop innovative approaches for providing transitional housing and supportive services for homeless persons, focusing on those capable of moving into independent living.

(b) Purposes.—The demonstration program carried out under this part shall be designed to determine—

(1) the cost of acquisition, rehabilitation, acquisition and rehabilitation, or leasing of existing structures for the provision of housing for homeless persons;

(2) the cost of operating such housing and providing supportive services to the residents of such housing; and

(3) the social, financial, and other advantages of such housing and supportive services as a means of assisting homeless persons.

### SEC. 423. TYPES OF ASSISTANCE.

(a) In General.—The Secretary may provide the following assistance under the demonstration program established in this part:

(1) a non-interest-bearing advance, in an amount not to exceed $200,000, of the aggregate cost of ac-

quisition, rehabilitation, or acquisition and rehabilitation of an existing structure for use in the provision of housing and supportive services for homeless persons, whichever is less;

(2) annual payments for operating costs of such housing, not to exceed 75 percent of the annual operating costs of such housing; and

(3) technical assistance in establishing and operating such housing and providing supportive services to the residents of such housing.

(b) NONREPAYMENT OF ADVANCES.—Any advance provided under subsection (a)(1) shall not be required to be repaid if the recipient involved utilizes the structure for which such advance is made as housing for homeless persons in accordance with the provisions of this part for not less than the 10-year period following initial occupancy of such housing, or if the Secretary determines that such structure is no longer needed for use as transitional housing and approves the use of such structure for another charitable purpose, for the remainder of such 10-year period. If the applicant fails to comply with the conditions for waiver of repayment, the applicant shall repay to the Secretary in cash the full amount of the advance received on such terms as may be prescribed by the Secretary.

### SEC. 424. PROGRAM REQUIREMENTS.

(a) APPLICATIONS.—Applications for assistance under this part shall be made in such form and in accordance with such procedures as the Secretary shall establish.

(b) SELECTION CRITERIA.—In selecting recipients for assistance under this part, the Secretary shall consider—

(1) the ability of the applicant to develop and operate housing for homeless persons and to provide or coordinate supportive services for the residents of such housing;

(2) the innovative quality of the proposal in providing housing and supportive services in a manner which facilitates the transition to independent living;

(3) the need for such housing and supportive services in the area to be served; and

(4) such other factors as the Secretary determines to be appropriate for purposes of carrying out the demonstration program established by this part in an effective and efficient manner.

(c) REQUIRED AGREEMENTS.—Each recipient under this part shall agree, with respect to each structure for which such assistance is provided—

(1) to operate transitional housing assisting residents in the transition to independent living and limiting the stay of individual residents to a period to be established by the Secretary;

(2) to conduct an assessment of the supportive services required by the residents of such structure;

(3) to employ a full-time residential supervisor with sufficient expertise to provide, or supervise the provision of, supportive services to the residents of such structure;

(4) to utilize such structure as housing for homeless persons in accordance with the provisions of this part for not less than the 5-year period following initial occupancy of such housing;

(5) to monitor and report to the Secretary on the progress of homeless persons assisted; and

(6) to comply with such other terms and conditions as the Secretary may establish for purposes of carrying out the demonstration program established in this part in an effective and efficient manner.

(d) OCCUPANT RENT.—Each homeless person residing in housing assisted under this part shall pay as rent an amount determined in accordance with the provisions of section 3(a) of the United States Housing Act of 1937.

(e) AUTHORITY OF BOARD.—The Board shall, from time to time, furnish advice to the Secretary in connection with the demonstration programs under this title.

**SEC. 425. GUIDELINES.**

(a) IN GENERAL.—Not later than the expiration of the 180-day period following the date of enactment of this Act, the Secretary shall issue such guidelines as may be necessary to carry out the provisions of this part.

(b) ADVANCE CONSULTATION.—Before issuing guidelines under this section, the Secretary shall consult with persons and entities having expertise with respect to the problems and needs of homeless persons or experience in providing housing or supportive services for such persons.

(c) PUBLICATION.—Guidelines established under subsection (a) shall be published annually and whenever modified in the Federal Register. The Secretary shall be subject to the procedural rulemaking requirements of subchapter II of chapter 5 of title 5, United States Code.

**SEC. 426. REPORTS TO CONGRESS.**

The Secretary shall submit to the Congress—

(1) not later than 3 months after the end of fiscal year 1987, an interim report summarizing the activities carried out under this part during such fiscal year and setting forth any preliminary findings or conclusions of the Secretary as a result of such activities; and

(2) not later than 6 months after the end of fiscal year 1988, a final report summarizing all activities carried out under this part and setting forth any findings,

conclusions, or recommendations of the Secretary as a result of such activities.

**SEC. 427. LIMITATION ON BUDGET AUTHORITY.**

The aggregate amount of non-interest bearing advances and annual payments for operating expenses made by the Secretary under this part in fiscal year 1987 may not exceed $10,000,000 from the amount made available under section 436. Such amount shall remain available until expended.

### PART D—EMERGENCY SHELTER GRANTS PROGRAM

**SEC. 431. GRANT ASSISTANCE.**

The Secretary shall, to the extent of amounts approved in appropriation Acts under section 436, make grants to States, units of local government, and to private nonprofit organizations providing assistance to the homeless in order to carry out activities described in section 435.

**SEC. 432. ALLOCATION AND DISTRIBUTION OF ASSISTANCE.**

(a) IN GENERAL.—The Secretary shall allocate assistance under this part to metropolitan cities, urban counties, and States (for distribution to units of general local government in the States) in a manner that ensures that the percentage of the total amount available under this part for any fiscal year that is allocated to any State, metropolitan city, or urban county is equal to the percentage of the total amount available for section 106 of the Housing and Community Development Act of 1974 for such prior fiscal year that is allocated to such State, metropolitan city, or urban county.

(b) MINIMUM ALLOCATION REQUIREMENT.—If, under the allocation provisions applicable under this part, any metropolitan city or urban county would receive a grant of less than $30,000 for any fiscal year, such amount shall instead be reallocated to the State.

(c) DISTRIBUTIONS TO NONPROFIT ORGANIZATIONS.—Any unit of general local government receiving assistance under this part may distribute all or a portion of such assistance to private nonprofit organizations providing assistance to the homeless.

(d) REALLOCATION OF FUNDS.—

(1) The Secretary shall, not less than twice during each fiscal year, reallocate any assistance provided under this part that is unused or returned or which becomes available under subsection (b).

(2) The Secretary shall provide such reallocation funds—

(A) to units of general local government demonstrating extraordinary need or large numbers of homeless individuals;

(B) to private nonprofit organizations providing assistance to the homeless; and

(C) to meet such other needs consistent with the purposes of this part.

**SEC. 433. ELIGIBLE ACTIVITIES.**

Assistance provided under this part may be used for the following activities relating to emergency shelter for the homeless:

(1) renovation, major rehabilitation, or conversion of buildings to be used as emergency shelters;

(2) provision of essential services, including services concerned with employment, health, drug abuse, or education, if—

(A) such services have not been provided by the unit of general local government during any part of the immediately preceding 12-month period; and

(B) not more than 15 percent of the amount of any assistance to a unit of general local government under this part is used for activities under this paragraph; and

(3) maintenance, operation (other than staff), insurance, utilities, and furnishings.

**SEC. 434. RESPONSIBILITIES OF GRANTEES.**

(a) SUBMISSION OF HOMELESS ASSISTANCE PLAN.—Following notification by the Secretary of eligibility for assistance under this part, each State, metropolitan city, and

urban county shall submit to the Secretary a plan describing the proposed use of such assistance. The Secretary shall provide the appropriate amount of assistance to such State, metropolitan city, or urban county before the expiration of the 60-day period following the date of the submission of such plan, unless the Secretary determines before the expiration of such period that such plan is not in compliance with this part.

(b) MATCHING AMOUNTS.—

(1) Each grantee under this part shall be required to supplement the assistance provided under this part with an equal amount of funds from sources other than this part. Each grantee shall certify to the Secretary its compliance with this paragraph, and shall include with such certification a description of the sources and amounts of such supplemental funds.

(2) In calculating the amount of supplemental funds provided by a grantee under this part, a grantee may include the value of any donated material or building, the value of any lease on a building, any salary paid to staff to carry out the program of the grantee, and the value of the time and services contributed by volunteers to carry out the program of the grantee at a rate determined by the Secretary.

(c) ADMINISTRATION OF ASSISTANCE.—Each grantee shall act as the fiscal agent of the Secretary with respect to assistance provided to such grantee.

(d) CERTIFICATIONS ON USE OF ASSISTANCE.—Each grantee shall certify to the Secretary that—

(1) it will maintain as a shelter for the homeless for not less than a 3-year period any building for which assistance is used under this part, or for not less than a 10-year period if such assistance is used for the major rehabilitation or conversion of such building;

(2) any renovation carried out with assistance under this part shall be sufficient to ensure that the building involved is safe and sanitary; and

(3) it will assist homeless individuals in obtaining—

(A) appropriate supportive services, including permanent housing, medical and mental health treatment, counseling, supervision, and other services essential for achieving independent living; and

(B) other Federal, State, local, and private assistance available for such individuals.

### SEC. 435. ADMINISTRATIVE PROVISIONS.

(a) REGULATIONS.—Not later than the expiration of the 60-day period following the date of enactment of this Act, the Secretary shall by notice establish such requirements as may

be necessary to carry out the provisions of this part. Such requirements shall be subject to section 553 of title 5, United States Code. The Secretary shall issue requirements based on the initial notice before the expiration of the 12-month period following the date of enactment of this Act.

(b) INITIAL ALLOCATION OF ASSISTANCE.—Not later than the expiration of the 60-day period following the date of enactment of a law providing appropriations to carry out this part, the Secretary shall notify each State, metropolitan city, and urban county that is to receive a direct grant, of its allocation of assistance under this part. Such assistance shall be allocated and may be used notwithstanding any failure of the Secretary to issue requirements under subsection (a).

### SEC. 436. APPROPRIATIONS FOR PARTS C AND D.

There are authorized to be appropriated to the Department of Housing and Urban Development for fiscal year 1987, $50,000,000 to carry out part C and this part.

## TITLE V—NEHEMIAH HOUSING OPPORTUNITY GRANTS

### SEC. 501. STATEMENT OF PURPOSE.

It is the purpose of this title—

(1) to encourage homeownership by families in the United States who are not otherwise able to afford homeownership;

(2) to undertake a concentrated effort to rebuild the depressed areas of the cities of the United States and to create sound and attractive neighborhoods; and

(3) to increase the employment of neighborhood residents.

### SEC. 502. DEFINITIONS.

For purposes of this title:

(1) The term "Fund" means the Nehemiah Housing Opportunity Fund established in section 509(a).

(2) The term "home" means any 1- to 4-family dwelling. Such term includes any dwelling unit in a condominium project or cooperative project consisting of not more than 4 dwelling units, any town house, and any manufactured home.

(3) The term "lower income families" has the meaning given such term in section 3(b)(2) of the United States Housing Act of 1937.

(4) The term "metropolitan statistical area" means a metropolitan statistical area as established by the Office of Management and Budget.

(5) The term "nonprofit organization" means a private nonprofit corporation, or other private nonprofit legal entity, that is approved by the Secretary as to financial responsibility.

(6) The term "Secretary" means the Secretary of Housing and Urban Development.

(7) The term "State" means each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States.

(8) The term "substantial rehabilitation" means—

(A) rehabilitation involving costs in excess of 60 percent of the maximum sale price of a home assisted under this title in the market area in which it is located; or

(B) the rehabilitation of a vacant, uninhabitable structure.

(9) The term "unit of general local government" means any borough, city, county, parish, town, township, village, or other general purpose political subdivision of a State.

### SEC. 503. ASSISTANCE TO NONPROFIT ORGANIZATIONS.

(a) In General.—The Secretary may provide assistance to nonprofit organizations to carry out Nehemiah housing opportunity programs in accordance with the provisions of this title. Such assistance shall be made in the form of grants.

(b) APPLICATIONS.—Applications for assistance under this title shall be made in such form, and in accordance with such procedures, as the Secretary may prescribe.

### SEC. 504. USE OF ASSISTANCE.

(a) IN GENERAL.—Any nonprofit organization receiving assistance under this title shall use such assistance to provide loans to families purchasing homes constructed or substantially rehabilitated in accordance with a Nehemiah housing opportunity program approved under this title.

(b) SPECIFIC REQUIREMENTS.—Each loan made to a family under this section shall—

(1) be secured by a second mortgage held by the Secretary on the property involved;

(2) be in an amount not exceeding $15,000;

(3) bear no interest; and

(4) be repayable to the Secretary upon the sale or other transfer of such property.

### SEC. 505. PROGRAM REQUIREMENTS.

(a) IN GENERAL.—Assistance provided under this title may be used only in connection with a Nehemiah housing opportunity program of construction or substantial rehabilitation of homes.

(b) FAMILY NEED.—Each family purchasing a home under this title shall—

(1) have a family income on the date of such purchase that is not more than whichever of the following is higher:

(A) 115 percent of the median income for a family of 4 persons in the metropolitan statistical area involved; or

(B) the national median income for a family of 4 persons; and

(2) not have owned a home during the 3-year period preceding such purchase.

(c) DOWNPAYMENT.—

(1) Each family purchasing a home under this title shall make a downpayment of not less than 10 percent of the sale price of such home, or of such greater amount determined by the nonprofit organization involved to be appropriate.

(2) Any downpayment made under this subsection shall accrue interest from the date on which such downpayment is made through the date of settlement, at a rate not less than the passbook rate. Such interest shall be paid by the nonprofit organization involved to the family purchasing the home for which such downpayment was made.

(d) LEASING PROHIBITION.—No family purchasing a home under this title may lease such home.

### SEC. 506. TERMS AND CONDITIONS OF ASSISTANCE.

(a) Local Consultation.—No proposed Nehemiah housing opportunity program may be approved by the Secretary under this title unless the nonprofit organization involved demonstrates to the satisfaction of the Secretary that—

(1) it has consulted with and received the support of residents of the neighborhood in which such program is to be located; and

(2) it has the approval of each unit of general local government in which such program is to be located.

(b) Program Schedule.—Each nonprofit organization applying for assistance under this title shall submit to the Secretary an estimated schedule for completion of its proposed Nehemiah housing opportunity program, which schedule shall have been agreed to by each unit of general local government in which such program is to be located.

(c) Minimum Participation.—No nonprofit organization receiving assistance under this title may commence any construction or substantial rehabilitation (except with respect to homes to be constructed or substantially rehabilitated for the purpose of display) until not less than 25 percent of the homes to be constructed or substantially rehabilitated [illegible] contracted for sale to purchasers who intend to live in such homes and the required downpayments are made.

(d) Financial Feasibility.—The Secretary may not provide any assistance under this title to any nonprofit organization unless such nonprofit organization demonstrates the financial feasibility of its proposed Nehemiah housing opportunity program, including the availability of non-Federal public and private funds.

(e) Home Quality and Location.—A Nehemiah housing opportunity program may be approved under this title only if it provides that—

(1) the number of homes to be constructed or substantially rehabilitated under such program will not be less than whichever of the following is less:

(A) the greater of (i) 50 homes; or (ii) 0.25 percent of the number of existing dwelling units in the unit of general local government that provides the most assistance to such program; or

(B) 250 homes;

(2) each home constructed or substantially rehabilitated under such program will comply with—

(A)(i) applicable local building code standards;

(ii) in any case in which there is not an applicable local building code, a nationally recognized model building code mutually agreed upon by the sponsoring nonprofit organization and the Secretary; or

(iii) in the case of a manufactured home, the standards prescribed pursuant to title VI of the Housing and Community Development Act of 1974 and the installation, structural, and site requirements that would apply under title II of the National Housing Act; and

(B) the energy performance requirements established under section 526 of the National Housing Act; or in the case of manufactured housing, the energy conservation requirements prescribed in accordance with section 203(b) of the National Housing Act;

(3) all homes constructed or substantially rehabilitated under such program will be located in census tracts, or identifiable neighborhoods within census tracts, in which the median family income is not more than 80 percent of the median family income of the area in which such program is to be located, as such median family income and area are determined for purposes of assistance under section 8 of the United States Housing Act of 1937;

(4) all homes constructed or substantially rehabilitated under such program will be concentrated in a

single neighborhood and located on contiguous parcels of land, except that if the unit of general local government in which the project is located certifies that such land cannot be made available for a program of the size required by paragraph (1), homes may be constructed in a single identifiable neighborhood if the program provides for construction or substantial rehabilitation of homes on not less than 20 percent of the lots in such neighborhood; and

(5) sales contracts entered into under such program will contain provisions requiring repayment of any loan made under this title upon the sale or other transfer of the home involved, unless the Secretary approves a transfer of such home without repayment (in which case the second mortgage held by the Secretary on such home shall remain in force until such loan is fully repaid).

### SEC. 507. PROGRAM SELECTION CRITERIA.

(a) In General.—In selecting Nehemiah housing opportunity programs for assistance under this title from among eligible programs, the Secretary shall make such selection on the basis of the extent to which—

(1) non-Federal public or private entities will contribute land necessary to make each program feasible;

(2) non-Federal public and private financial or other contributions (including tax abatements, waivers of fees related to development, waivers of construction, development, or zoning requirements, and direct financial contributions) will reduce the cost of homes constructed or substantially rehabilitated under each program;

(3) each program will produce the greatest number of units for the least amount of assistance provided under this title, taking into consideration the cost differences among different market areas;

(4) each program is located in a neighborhood of severe physical and economic blight (and, in determining the degree of physical blight, the Secretary shall consider the condition (but not age) of the housing, other buildings, and infrastructure, in the neighborhood of the proposed program);

(5) each program uses construction methods that will reduce the cost per square foot below the average construction cost in the market area involved; and

(6) each program provides for the involvement of local residents in the planning, and construction or substantial rehabilitation, of homes.

(b) INCOME TARGET.—The Secretary shall require that a preponderance of the funds made available by this title for use within any metropolitan statistical area shall be available only for assistance to families whose incomes do not exceed 95 percent of the higher of area median income or national median income.

(c) EXCEPTION.—To the extent that non-Federal public entities are prohibited by the law of any State from making any form of contribution described in paragraph (1) or (2) of subsection (a), the Secretary shall not consider such form of contribution in evaluating such program.

### SEC. 506. DISTRIBUTION OF ASSISTANCE TO NONPROFIT ORGANIZATIONS.

(a) RESERVATION OF AMOUNTS.—Following the selection of any Nehemiah housing opportunity program for assistance under this title, the Secretary shall reserve sufficient amounts in the Nehemiah Housing Opportunity Fund for such assistance.

(b) DISTRIBUTION OF ASSISTANCE.—Following the sale of any home constructed or substantially rehabilitated under a Nehemiah housing opportunity program selected for assistance under this title, the Secretary shall provide to the sponsoring nonprofit organization an amount equal to the amount of the loan made to the family purchasing such home. Such amount shall be provided not more than 30 days after the sale of such home.

(c) MAXIMUM ASSISTANCE.—The assistance provided to any nonprofit organization under this title may not exceed $15,000 per home.

### SEC. 509. NEHEMIAH HOUSING OPPORTUNITY FUND.

(a) ESTABLISHMENT.—There hereby is established in the Treasury of the United States a revolving fund, to be known as the Nehemiah Housing Opportunity Fund. The Fund shall be available to the Secretary, to the extent approved in appropriation Acts, for purposes of providing assistance under section 503.

(b) ASSETS.—The Fund shall consist of—

(1) any amount appropriated under section 512;

(2) any amount received by the Secretary under section 504(b)(4); and

(3) any amount received by the Secretary under subsection (c).

(c) ADMINISTRATION.—Any amount in the Fund determined by the Secretary to be in excess of the amount currently required to carry out the provisions of this title shall be invested by the Secretary in obligations of, or obligations guaranteed as to both principal and interest by, the United States or any agency of the United States.

### SEC. 510. ANNUAL REPORT.

The Secretary shall annually prepare and submit to the Congress a comprehensive report setting forth the activities carried out under this title. Such report shall include—

(1) an analysis of the characteristics of the families assisted under this title during the preceding year, including family size, number of children, family income, sources of family income, race, age, and sex;

(2) an analysis of the market value of homes purchased under this title during the preceding year;

(3) an analysis of the non-Federal public and private financial or other contributions made during the preceding year to reduce the cost of homes constructed or substantially rehabilitated under each program;

(4) an analysis of the sales prices of homes under this title during the preceding year;

(5) an analysis of the amounts of the grants made to programs under this title during the preceding year; and

(6) any recommendations of the Secretary for modifications in the program established by this title in order to ensure the effective implementation of such program.

### SEC. 511. REGULATIONS.

The Secretary shall issue such regulations as may be necessary to carry out the provisions of this title. Any such regulations shall be issued in accordance with section 553 of title 5, United States Code, notwithstanding the provisions of subsection (a)(2) of such section.

**SEC. 512. AUTHORIZATION OF APPROPRIATIONS.**

There are authorized to be appropriated to carry out the provisions of this title such sums as may be necessary for fiscal years 1986 and 1987. Any amount appropriated under this section shall be deposited in the Nehemiah Housing Opportunity Fund, and shall remain available until expended.

## TITLE VI—FAIR HOUSING

**SEC. 601. FAIR HOUSING INITIATIVES PROGRAM.**

(a) IN GENERAL.—The Secretary of Housing and Urban Development (hereafter referred to as the "Secretary") may make grants to, or (to the extent of amounts provided in appropriation Acts) enter into contracts or cooperative agreements with, State or local governments or their agencies, public or private nonprofit organizations or institutions, or other public or private entities that are formulating or carrying out programs to prevent or eliminate discriminatory housing practices, to develop, implement, carry out, or coordinate—

(1) programs or activities designed to obtain enforcement of the rights granted by title VIII of the Act of April 11, 1968 (commonly referred to as the Civil Rights Act of 1968), or by State or local laws that

provide rights and remedies for alleged discriminatory housing practices that are substantially equivalent to the rights and remedies provided in such title VIII, through such appropriate judicial or administrative proceedings (including informal methods of conference, conciliation, and persuasion) as are available therefor; and

(2) education and outreach programs designed to inform the public concerning rights and obligations under the laws referred to in paragraph (1).

(b) PROGRAM ADMINISTRATION.—

(1) Not less than 30 days before providing a grant or entering into any contract or cooperative agreement to carry out activities authorized by this section, the Secretary shall submit notification of such proposed grant, contract, or cooperative agreement (including a description of the geographical distribution of such contracts) to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives.

(2) The Secretary shall provide to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives a quarterly

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**SENIOR CITIZENS
HOUSING COMMITTEE**

February 27, 1987

Senator Alan Cranston
Chairman, Subcommittee on Housing and
Urban Affairs
Senate Committee on Banking, Housing,
and Urban Affairs
535 Dirksen Senate Office Building
Washington, D.C. 20510

RE: Comments in response to S. 2507

Dear Mr. Chairman:

On behalf of the Senior Citizens Housing Committee of B'nai B'rith International, I would like to offer our comments with respect to your consideration of S.2507 in preparation for submission of the Housing and Community Development Act of 1987. In lieu of oral testimony that we were unable to provide, we would appreciate your inclusion of these comments in your official records.

B'nai B'rith International, through its Senior Citizens Housing Committee, has for the past 15 years been involved in a cooperative partnership with the federal government in building subsidized housing for senior citizens through the various programs of the Department of Housing and Urban Development, under Section 202/236 and now 202/8. During this time, we have opened 20 senior citizens apartment buildings nationwide. We have three additional projects under construction, and are currently preparing to submit another five applications for Section 202 funding to the Department of Housing and Urban Development for consideration during fiscal year 1987.

By 1989, we will have constructed and be operating 23 apartment buildings, nationwide, with just over 3,000 apartments. While most of these units house only one individual, many are for couples. We will be serving approximately 3,500 older citizens, without regard to race, religion, national origin, or creed. Thirty-five hundred people. That sounds like a great achievement, and perhaps it is for a single, private organization. But, in terms of answering the needs of the senior citizens, it falls terribly short.

The "greying of America" is well documented. The population 65 and over grew by 20.6 percent between 1960 and 1970, and by 28 percent between 1970 and 1980. Today, according to government statistics, 27 million Americans are over 65. The implications of these projections for housing in this country, and for the federal housing policy in particular, are profound.

The demand for Section 202 housing units far exceeds the supply. This is documented by the national survey of Section 202 housing projects conducted a few years ago by the U.S. Senate Special Committee on Aging, and confirmed by our experience at B'nai B'rith International. A survey of the B'nai B'rith facilities reveals that each of our 20 projects is filled to capacity. Turnover takes place only after a death, or when illness forces a resident to move to a nursing home. The three projects still in the development stage are already accumulating sizable waiting lists, even though construction is far from complete and no public announcement for applications has been made. Our Washington office receives letters and calls daily, from individuals all across the country requesting information about our program, and asking where they can find available housing.

Yet these figures represent only a fraction of the actual number of persons who need the housing that these projects offer. Waiting lists only represent those persons who chose to apply, and does not include those who were discouraged by the prospect of a long wait and chose not to bother. Many times these are the people who may be most in need of affordable housing. Sometimes a waiting list becomes "frozen" and no new names are added. For example, at our facilities in Allentown, PA, the waiting list has been "frozen" for four years. They are just now beginning to accept new applications for apartments. Unfortunately, we can document similar situations in many other cities across the country.

With this in mind, we would like to offer the following specific points as proposed amendments to S.2507.

1. As one of HUD's most successful programs, the Section 202 direct loan program for the elderly and handicapped should be authorized to fund an additional minimum of 12,000 housing units with appropriations of a minimum of $750,000,000 (adjusted annually for inflation). The 1981 White House Conference on Aging called for a minimum of 20,000 units annually for this program.

2. Provide that eligibility for occupancy in low income housing, including the Section 202 direct loan program, be extended to families and single persons with incomes of up to 80 percent of the median income for the area. The current limitation requiring that eligibility for admission to occupancy be limited to those with incomes of 50 percent of the median income for the area is far too restrictive, shuts out low income families and persons who cannot obtain decent housing without the expenditure of excessive percentages of their income -- often in excess of 50 percent, creates over-concentrations of the very poor, and tends to result in the use of maximum subsidies per unit subsidized, rather than maximizing the number receiving assistance. Such an amendment would return eligibility to the income groups originally made eligible in the 1974 Housing Act.

   Our experience at B'nai B'rith indicates that over 80% of the residents in our buildings are in the very low income group, and would continue to be so, even if the limits were to be raised.

However, we are currently faced with the task of rejecting many needy and deserving individuals whose incomes are only slightly above the very low income range.

3. Occupants of Section 202 and other housing projects where the Section 8 Housing Assistance Payments are used as subsidies are required to pay thirty (30) percent of the incomes for rent. Administratively, HUD has determined that if the 30 percent of the family's or person's income is more than the fair market rent for the unit to be occupied, that family or person is considered ineligible for occupancy. This penalizes an otherwise eligible family or person unfairly, simply because a given project has a relatively low rent structure. Because conscientious owners and management have controlled costs and have not routinely sought rental increases, the income eligible applicant is penalized by not being admitted to the building. However, the same individual is able to gain admission to any other Section 202 building with a higher rent structure, with an accompanying rental subsidy which would not be required in the original case.

   S.2507 should be amended to permit such families or persons to be assured admission if they are otherwise eligible under HUD guidelines.

4. Various efforts are being made to permit the prepayment of mortgages covering low income projects such as Section 202 projects for the elderly and handicapped where the market demand for housing suggests that higher rents and profits could be obtained should the mortgages be paid off immediately. This would result in the loss of already limited housing resources for the low income elderly or handicapped if such prepayments were permitted.

   Accordingly, S.2507 should include a provision that would allow low income project mortgage to be prepaid prior to the maturity date of the mortgage, without penalty, but with provision that HUD's requirements assuring that the project would continue to serve the original purpose for which it was approved would still be in effect.

5. Having demonstrated its success in meeting the needs of the frail elderly and the handicapped, and with continuing unmet needs among many, many thousands, the Congregate Housing Services Program (CHSP) should be revitalized and authorized to serve an additional minimum of 20,000 frail elderly and handicapped families and persons annually to be allocated between Section 202 and public housing projects as currently administered.

   An annual authorization of an additional $30,000,000 would, in essence, double the size of the current program and provide supportive services for approximately 4200 individuals for a report that summarizes the activities funded under this section and describes the geographical distribution of grants, contracts, or cooperative agreements funded under this section.

(c) REGULATIONS.—

(1) The Secretary shall issue such regulations as may be necessary to carry out the provisions of this section.

(2) Such regulations shall include provisions governing applications for assistance under this section, and shall require each such application to contain—

(A) a description of the assisted activities proposed to be undertaken by the applicant, together with the estimated costs and schedule for completion of such activities;

(B) a description of the experience of the applicant in formulating or carrying out programs to prevent or eliminate discriminatory housing practices;

(C) available information, including studies made by or available to the applicant, indicating the nature and extent of discriminatory housing practices occurring in the general location where the applicant proposes to conduct its assisted activities, and the relationship of such activities to such practices;

(D) an estimate of such other public or private resources as may be available to assist the proposed activities;

(E) a description of proposed procedures to be used by the applicant for monitoring conduct and evaluating results of the proposed activities; and

(F) any additional information required by the Secretary.

(3) Regulations issued under this subsection shall not become effective prior to the expiration of 90 days after the Secretary transmits such regulations, in the form such regulations are intended to be published, to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives.

(4) The Secretary shall not obligate or expend any amount under this section before the effective date of the regulations required under this subsection.

(d) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to carry out the provisions of this section, including any program evaluations, such sums as may be provided in appropriation Acts for fiscal years 1986 and 1987. Any amounts appropriated under this section shall remain available until expended.

### SEC. 602. GUIDELINES FOR THE FUNDING OF TESTING UNDER THE PRIVATE ENFORCEMENT INITIATIVE OF THE FAIR HOUSING INITIATIVES PROGRAM.

(a) IN GENERAL.—The private enforcement initiative of the fair housing initiatives program authorizes the Secretary of Housing and Urban Development (hereinafter referred to as the "Secretary") to provide funds authorized under section 601 to nonprofit organizations or other public and private entities which are conducting programs to prevent or eliminate discriminatory housing practices. Under the initiative, the Secretary provides funding on a competitive basis for, among other things, investigations in support of fair housing judicial and administrative enforcement efforts described in section 601(a)(1). The purpose of these investigations is to develop credible and objective evidence of discriminatory housing practices. This section contains guidelines for the conduct of such investigations. These guidelines are not intended to restrict individuals or entities participating in the fair housing initiatives program from pursuing any right or remedy guaranteed by Federal law.

(b) SCOPE.—These guidelines apply to testing activities funded under the private enforcement initiative of the fair

housing initiatives program and conducted in support of the investigation of discriminatory housing practices.

(c) DEFINITIONS.—As used in this section:

(1) The term "bona fide allegation" means an assertion of a discriminatory housing practice unlawful under Federal fair housing law. For purposes of these guidelines an allegation by a person engaged as a tester, whether or not compensated, or by any organization, employee, or agent engaged directly in the initiation, administration, evaluation, or conduct of tests shall not be deemed a bona fide allegation. The allegation must state specifically and in detail the facts and circumstances which are believed to constitute the discriminatory housing practice, including, but not limited to, the dates, times, and places of the alleged discrimination, and the name of each person or firm allegedly engaged in the discriminatory housing practice.

(2) The term "discriminatory housing practices" means any actions made unlawful by section 804, 805, or 806 of the Act of April 11, 1968 (42 U.S.C. 3604, 3605, or 3606).

(3) The term "test" means a method of gathering credible and objective evidence of whether a discriminatory housing practice has occurred. For purposes of tests conducted under these guidelines:

(A) In the case of a test conducted in response to an allegation involving the rental or financing of a home or apartment, a test must include one or more visits by at least two individual testers to the lender, rental agent, management firm, or owner alleged to have discriminated.

(B) In the case of a test conducted in response to an allegation involving the purchase of a home, a test must include one or more visits by at least two individual testers to the individual sales agent or owner alleged to have discriminated or if a firm is alleged to have engaged in discriminatory housing practices and if no sales agent of the firm has been identified as having discriminated, then the test must include one or more visits by at least two paired testers as defined in subsection (d)(2)(D) to any sales agent identified by the testing program. The test requirements specified herein shall not excuse any employer, broker, firm, or owner from such liability as the law imposes on them for the conduct of their employees or licensees affiliated with them. Nothing herein shall limit the number of test visits which can be made or funded.

(4) The term "testers" means individuals, who without an intent to rent, purchase, or finance a home or apartment, pose as renters, purchasers, or borrowers for the purpose of collecting evidence of discriminatory housing practices.

(d) Eligible Activities.—Eligible testing activities must be conducted in accordance with procedures contained in the application for assistance. These procedures shall include the following:

(1) A formal recruitment process designed to obtain a pool of credible and objective persons to serve as testers. Recruits must not have prior felony convictions or convictions of crimes involving fraud or perjury.

(2) A tester training program which will—

(A) require the careful recordation of all relevant information on standardized forms following completion of the test;

(B) prohibit any contact or communication between pairs of testers until all information has been recorded and the testers debriefed by the testing coordinator;

(C) require that the same or substantially equivalent type of housing accommodations, financing, or service be requested; and

(D) require that testers identify themselves as having the same or substantially equivalent housing needs and demographic profile as the person who made the bona fide allegation, except for the race, creed, religion, sex, nationality, or other attribute which is the basis of the alleged discrimination. In cases of testing for systemic discrimination, demographic profiles may vary from that of the person who made the bona fide allegation so long as the test of each agent or owner is a "paired" test. For the purpose of these guidelines, a "paired test" means that the two testers who will conduct the "paired test" shall—

(i) have the same or substantially similar demographic profiles except for the race, creed, religion, sex, nationality, or other attribute which is the basis of the alleged discrimination;

(ii) have the same or substantially similar housing requirements;

(iii) shall conduct the test at the same office or in the same or substantially similar transactional conditions and circumstances; and

(iv) shall conduct the test in a timely manner.

(3) A tester assignment and control system which will assure that neither the tester, nor the organization conducting the test, including its employees and agents—

(A) has an economic interest in the outcome of the test without prejudice to the right of any person or entity to recover damages for any cognizable injury; or

(B) has a specific bias toward either the person who made the bona fide allegation or respondent; is a relative of one of the parties in a case; has any prior employment or affiliation with the person or organization to be tested; is a licensed competitor of such person or organization in the listing, rental, sale, or financing of real estate property; or has any other specific bias or conflict of interest which would prevent or limit his or her objectivity or fairness.

(e) APPLICATION REQUIREMENTS.—Applications under this section must include—

(1) documentation stating that the applicant has at least one year of experience in carrying out a program

to prevent or eliminate discriminatory housing practices;

(2) certification providing that the applicant will not solicit funds from or seek to provide fair housing educational services or products for compensation, directly or indirectly, to any person or organization which has been the subject of testing by the applicant within the prior 12-month period;

(3) description of the process to be used to recruit testers;

(4) description of the tester training program; and

(5) copies of forms used to document allegations and to record the experience of testers.

(f) PERFORMANCE MONITORING.—An applicant failing to comply with the requirements of the private enforcement initiative, or the procedures set forth in its application for funding, shall be liable for such sanctions as may be authorized by law. These sanctions include repayment of improperly used funds, termination of further participation in the initiative, reduction or limitation of further funding for investigatory activities, the recapture of improperly expended funds, and the denial of further participation in programs of the Department of Housing and Urban Development.

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Calendar No. 666

99TH CONGRESS
2D SESSION

# S. 2507

[Report No. 99–314]

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# A BILL

To amend and extend certain laws relating to housing, and for other purposes.

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MAY 29, 1986

Read twice and placed on the calendar

three-year period. This outlay would result in significant savings to the federal government if these services were to be obtained under a more institutional setting.

6. To assure the selection of high quality proposals located in areas of sufficient demand, an amendment should be included in S.2507 to eliminate the requirement that 20 percent of the funds allocated annually be for projects located in non-metropolitan areas and the present proposal in S.2507 in Section 226 requiring that 15 percent of the total annual appropriation for development be allocated for housing for the non-elderly handicapped also should be eliminated.

Since the inception of the Section 202 program, the federal government has depended upon the non-profit community to share in the task of providing the sense of commitment and challenge in making quality housing available to low-income senior citizens. For the non-profit organizations in general, and B'nai B'rith in particular, this partnership has been an exciting and eye-opening experience of government and private groups working hand-in-hand, to the benefit of thousands of American citizens. We believe that many tax dollars have been saved through this housing program, and that people who needed the help most have been helped.

Without your support, the non-profit community could not continue in this great endeavor. The remarkable advances that this country has made in accomplishing our housing goals would not have come about if it were not for the significant participation of the federal government.

The quality of the non-profit component in this equation cannot be overstated. WE CARE! That is the only reason we are in this business! There are literally thousands of volunteers, like us, who regularly give of their time and energy so that we may provide for others.

We consider it to be a priviledge and a sacred task to be involved in this program of caring for senior citizens, and we hope to continue to build new projects in cooperation with HUD. Providing affordable housing for the elderly requires a long-term commitment of time and resources. We have that commitment. It is because of this commitment that we now express our views.

B'nai B'rith strongly believes in the philosophy of the Section 202 program - that is, to foster "independent living." Our facilities provide not only shelter, but all of the services and attention that are appropriate. We do not "warehouse" residents. We offer housing which becomes their home. Residents have their own apartments, but these separate apartments rapidly evolve into a great sense of community - a community that is caring and supportive - a community where you discover a vibrant, hopeful, amazingly lively body of people striding toward the future with dignity and confidence.

A primary need of the elderly is housing that is specifically designed for them. Without such provisions, we merely force them into costly and dehumanizing nursing homes. The Section 202 Direct Loan Program has successfully shown that by providing these necessities, the elderly live better lives.

Mr. Chairman, we appreciate the opportunity to share these thoughts with you. There have been many criticisms of the Section 202 program and its forerunners in subsidized housing for the elderly, but on balance, we must focus on all of the good that has been in this partnership between government and non-profit organizations.

We look forward to being able to assist you in strengthening this program and for the opportunity to continue to provide quality housing for our needy seniors.

Sincerely,

Nathan Nagler

Nathan I. Nagler
Chairman

NN:hmn

*City of Detroit Executive Office* *Coleman A. Young, Mayor*

STATEMENT OF
THE HONORABLE COLEMAN A. YOUNG,
MAYOR, CITY OF DETROIT

CONCERNING THE REAUTHORIZATION OF

COMMUNITY DEVELOPMENT BLOCK GRANTS
AND
URBAN DEVELOPMENT ACTION GRANTS

SUBMITTED TO THE

SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

March, 1987

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Mr. Chairman, and Members of the Subcommittee on behalf of the City of Detroit, Mayor Coleman A. Young submits this testimony for the record in support of the reauthorization of housing and community development programs. The City of Detroit supports a three year authorization of the Community Development Block Grant (CDBG) program at the full funding level of $3.4 billion. The City also supports the continuation of the Urban Development Action Grant (UDAG) program at the funding level of $440 million.

CDBG and UDAG are essential programs which have brought about significant community development activities and stimulated economic growth and development in Detroit. These are important programs that must receive strong commitment and support from the Federal government. In Detroit the programs are targeted to benefit low/moderate income persons and benefits that pool of recipients specifically, while benefiting the City as a whole.

Detroit has experienced an economic downturn over the past several years. The crisis in the automotive industry left the City in dire straits. Through the use of federal money, such as CDBG and UDAG, the City has been able to diversify its economy and begin turning its economy around. These are economic programs that mean a lot to the City and they have achieved their intended goals.

Historically, the Federal government has been turned to for assistance in times of crisis. There is a crisis in cities across the nation today. Hopefully there will come a day when cities do not have to rely upon Federal assistance programs, but that day is not here. Detroit needs these programs to revitalize and sustain its economy.

Projects undertaken in Detroit through CDBG and UDAG have given people hope during these rough economic times. These programs have brought housing downtown to a once eroded inner-core of the City. They have also helped to create new industries in Detroit.

Federal support for the CDBG program has declined significantly over the past several years. Detroit has seen a continued reduction of its CDBG entitlement since 1980. In fiscal year 1980, Detroit was allocated $64 million. The City's fiscal year 1986 allocation was $43 million. This represents a thirty-three (33) percent or $21 million reduction in just seven years. We recently had to rely on $7.6 million from an already limited general fund for several programs normally funded with CDBG monies. Those City programs that have been cut to adjust for CDBG funding decreases directly affect people.

The Administration's budget proposal recommends that state and local governments meet their own local community and development needs. Although the Administration cites CDBG as the principal vehicle for continued federal support, it proposes to reduce the total resources for CDBG in fiscal year 1987 and 1988 and to broaden the scope of the program.

The Administration supports new construction as an eligible CDBG activity. An expanded CDBG program at a decreased funding level would be detrimental to the program. The proposed change would result in a real reduction in overall housing funding. Those programs that have historically provided housing construction assistance should be maintained, yet they are being proposed for reduction or elimination.

Detroit has demonstrated prudent use of its CDBG entitlement over the years. We have designed and implemented a balanced economic, neighborhood, and housing development program to promote decent housing, stabilization of neighborhoods, and economic opportunities that principally benefits persons of low/moderate income and that aid in the prevention or elimination of slums and blight. It is estimated that 75.8 percent of the City's CDBG program funds will benefit persons with low/moderate income in 1987.

The median income level in Detroit is substantially below the low/moderate income limit. For persons with low/moderate incomes, we have made use of funds to rehabilitate or repair both owner occupied and rental units; to provide public services, and to create job opportunities. Activities have also been undertaken to increase the tax base and make the City attractive for investment. This is an indirect benefit to all residents of the City.

The four largest activity categories in our CDBG program are the rehabilitation of residential units, commercial strips and community buildings for use in public service (32 percent); the demolition of dangerous buildings to eliminate blight (26 percent); economic development for the creation of job opportunities (17 percent); and assisting established public service agencies (8 percent).

The primary objectives of the Federal CDBG program are to develop viable cities by providing decent housing, good neighborhoods, and economic opportunities, principally for persons with low/moderate income. Detroit's CDBG program is designed to fulfill the goals of the federal statutory objectives. Our CDBG program has been designed to achieve the following objectives:

- Stimulate private investment to create new jobs and to retain and upgrade existing jobs for all City residents.
- Stimulate private residential investment to provide new and rehabilitated housing.
- Upgrade the existing housing stock, eliminate or rehabilitate substandard dwellings, and prevent the deterioration of older, but good existing housing.
- Improve neighborhoods, particularly deteriorated neighborhoods, by eliminating blighting influences and improving housing, streets and sidewalks, alleys, lighting, recreational and other neighborhood facilities.
- Improve commercial areas including neighborhood shopping areas, shopping centers, and the Central Business District.

- Coordinate public services with the physical development program.

Through the use of CDBG funds we have made substantial progress in carrying out CDBG program objectives.

The home rehabilitation program is designed to upgrade the existing housing stock, particularly that part of the stock owned by persons who cannot afford to improve their homes without assistance. Our Program encourages homeowners and landlords to invest in property improvements. It also aims to prevent housing deterioration which leads to neighborhood deterioration.

Grants are provided to persons with lower incomes, and low interest loans are provided to persons who are able to invest in their properties. During the period between 1982 and 1986 the assistance provided by the City resulted in the rehabilitation or repair of over 6,000 housing units.

The neighborhood improvement and development program improves public facilities in existing neighborhoods and eliminates blighted buildings throughout the City, it also prepares land for new housing and public facilities in areas where blight is extensive.

The City accomplishes program objectives through sidewalk, curb, lighting and street improvements. Street tree plantings are also undertaken on a limited scale in a relatively large number of neighborhoods. Major public improvements have been undertaken in large neighborhoods where a comprehensive development program is underway. Blighted and dangerous buildings are demolished throughout the City. Over 6,700 dangerous buildings were demolished between 1982 and 1986.

The City's economic development/commercial area improvement program has stimulated private investment in Detroit to create new jobs and to retain existing jobs. The program has improved commercial areas, including neighborhood shopping areas, large shopping centers, and the Central Business District. It has also stimulated private investment in housing in the City.

Under the program, land is bought and prepared for resale to industrial and commercial businesses and housing developers. Low interest loans and incentive grants are offered to businesses to improve their properties. Public rights-of-way are improved in business areas. Businesses and investors are assisted in developing financial packages combining private and public resources for mutual private and public benefit.

Some of the significant accomplishments of this program include the development of the Central Industrial Park including a new General Motors assembly plant, the preparation of land for industrial development in the Connor Lane project, the preparation of land for residential development in the Jefferson/Chalmers, Elmwood Park No. 2, and Forest Park/Leland Orleans projects, the organization of the Metropolitan Center For High

Technology, and the provision of loans and incentive grants to over 100 businesses.

The public services program reinforces the physical development activities by providing funds for landlord/tenant counseling, spouse abuse counseling, and certain other services. During the 1986 program year, mental health services were provided to almost 1,100 people. Comprehensive health services were made available to over 81,000 patient visits. Counseling and/or shelter was provided to over 2,000 victims of domestic violence. Landlord/tenant counseling was provided to over 2,800 persons.

The administration, management, and planning program utilized insures efficient operation of the CDBG program in accordance with Federal regulations, our standard operation procedures, and sound management practices. Substantial changes have been made in the internal timekeeping and cost allocation systems, and improvements in procedures for monitoring subgrantees. We have also begun to develop a computer based CDBG management and reporting system.

In sum, Detroit has made and is continuing to make substantial progress toward achieving its community development objectives. We believe that the CDBG program is working well, and should be continued at a level of $3.4 billion.

Another program we wish to see continued is the UDAG program. The Administration continues to support the elimination of the UDAG program. The Administration's budget proposes to rescind the remaining fiscal year 1987 funds and proposed to terminate the program in fiscal year 1988. Detroit supports reauthorization of UDAG at a level of $440 million.

The Secretary of Housing and Urban Development has noted that UDAG has been successful in the generation of jobs and increasing the tax base of blighted urban areas. Consistent with the Secretary's findings, Detroit has successfully utilized UDAG's to stimulate the investment of private dollars into various local projects. UDAG has also brought about an increase in the public/private partnership ratio in Detroit.

According to January, 1987 records maintained by the City's Community and Economic Development Department, about 32 approved UDAG projects totaling $166,773,753 generated $2,328,546,268 in private investments in the City. Those who argue that UDAG warrants termination because it is a pork barrel give away program to the detriment of the overall national economy, have overlooked the reality that the provision of local benefits, contribute to the national economy as a whole.

Detroit has used UDAG as a way to leverage private dollars into the City. UDAG has assisted successful projects that but for the UDAG could not have been undertaken.

UDAG has helped to diversify the City's economic base in areas such as manufacturing, industrial development, tourism and

housing. UDAG projects in the City have promise. The epitome of that promise has been demonstrated in Detroit by those businesses that got assistance, utilized that assistance to expand and who are now no longer reliable on the Federal government for support. For example, the Gilreath Manufacturing project consisted of the acquisition of machinery and equipment for a certified minority owned business. The purchase of new equipment and machinery has allowed the developer to become more competitive. This project created 75 new perminent jobs for minorities and low/moderate income people.

Detroit has also used UDAG's to maintain those industries that have remained in the City. The Central Industrial Park Project was implemented to retain and modernize a large portion of the City's existing manufacturing base. This project provides the incentive required to attract and retain high-employment growth manufacturing firms. The first phase of the project is the construction of a General Motors Assembly Plant. That project is expected to produce 6,150 permanent jobs, of which 4,080 may go to low and moderate income persons; 5,700 temporary and construction jobs, of which 650 will go to low and moderate income persons; $19,250,000 in property tax revenues and $2,767,500 in City income tax revenues from employees. The project is expected to generate benefits to Detroit, such as a substantial increase in retail and other business activities in the area and additional business for support industries such as suppliers.

The Chrysler project involves the complete modernization of the East Jefferson Avenue Assembly Plant. The modernization will include a new body shop, paint shop and assembly facility. We estimate that the modernization of this facility will allow for retention of over 4,000 employees, of which 69 percent are Detroit residents. Moreover, a $15 million UDAG will leverage private investment of $1 billion.

Tourism is an important aspect of Detroit's economic diversification. The Cobo Hall Convention Center expansion project promises to make Detroit more attractive for major conventions and conferences. The availability of hotel facilities is a key component to an expanded convention market. The Millander Center and Hotel, Pontchartrain Hotel, Book Cadillac Hotel and Hotel Crossroads are examples of how UDAGs have been useful tools in Detroit towards urban development.

The Book Cadillac Hotel project involves the renovation of 192,000 square feet of office space, and approximately 490 hotel rooms with 11,000 square feet of retail space. Upon completion, the new Book Cadillac Hotel will produce approximately 650 new jobs in Detroit. The project will restore a sixty-six year old landmark building, retain thirty jobs, and will greatly enhance the City's investment in the Central Business District.

Residential areas have been revitalized through UDAG projects such as Virginia Park Shopping Center and 7 Mile/Livernois Shopping Center. The Virginia Park Shopping Center is expected to create 250 new permanent jobs.

The Seven Mile/Livernois Neighborhood Shopping Center project is a major private initiative to rebuild and expand one of the strongest of the remaining neighborhood retail areas in Detroit. This project is expected to both upgrade the level and quality of retail and commercial services available to the predominently minority residential community in this area and to provide substantial new employment opportunities to low and moderate income residents within Detroit. Total projected new employment to be created by the project is expected to exceed 125 persons.

These are just a few examples, of how important UDAG's are to Detroit. As you can see, the Federal dollars invested have been put to good use in Detroit.

The City of Detroit looks forward to working with you, Mr. Chairman, and Members of the Subcommittee in passing legislation that will continue these vital housing and community development programs. Thank you for the opportunity to submit our views for the record.

# STATEMENT OF
# THE NATIONAL COUNCIL ON THE AGING (NCOA)
# AND ITS
# NATIONAL INSTITUTE OF SENIOR HOUSING (NISH)

Submitted to the Subcommittee on Housing and
Urban Affairs,
Committee on Banking, Housing and Urban Affairs
United States Senate

Washington, D.C.

February 1987

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The National Council on the Aging (NCOA) and its National Institute of Senior Housing (NISH) commends Senator Cranston and the entire subcommittee on housing and urban affairs for your commitment to passage of a housing authorization bill this year. We appreciate the opportunity to comment on S. 2507 on behalf of older Americans. NCOA/NISH makes the following recommendations to the subcommittee for amendments/additions to Title II of S. 2507.

1. Section 225 should be amended to authorize the Section 202 direct loan program for the elderly and handicapped to fund, on an annual basis, a minimum of 12,000 units with appropriation of a minimum of $750,000,000 (adjusted annually for inflation). The Section 202 program has been one of HUD's most successful programs over the years, and there is still massive unmet need for such housing that meets the special needs of older adults.

2. We support the provision contained in Section 225 providing that the interest rate be established at the rate of 30-year Treasury bonds issued during the three-month period immediately preceding the fiscal year in which the direct loan is made, plus one-quarter of one-percent for administrative costs and possible losses. NCOA/NISH recommends, however, that a provision be added mandating that the maximum interest rate not exceed 9 1/4 percent.

3. Title II should include an amendment to provide that eligibility for occupancy in low-income housing, including the Section 202 direct loan program, be extended to persons otherwise eligible with incomes of up to 80 percent of the median income for the area. The current limitation requiring that eligibility be limited to those with incomes of 50 percent of the median income for the area is far too restrictive. It shuts out low-income persons who cannot obtain decent housing without the expenditure of excessive percentages of their incomes (often in excess of 50 percent), creates over-concentrations of the very poor, and tends to result in the use of maximum subsidies per unit subsidized, rather than maximizing the number of persons receiving assistance. Such an amendment would return eligibility to the income groups originally made eligible in the 1974 Housing Act.

4. Occupants of Section 202 and other housing projects where the Section 8 Housing Assistance Payments are used as subsidies are required to pay thirty (30) percent of their incomes for rent. Administratively, HUD has determined that if the 30 percent of family's or person's income is more than the fair market rent for the unit to be occupied, that family or person is considered ineligible for occupancy. This penalizes an otherwise eligible family or person unfairly, simply because a given project has a relatively low rent structure. S.2507 should be amended to permit such families or persons to be assured admission if they are otherwise eligible.

5. Various efforts are being made to accelerate the prepayment of mortgages covering low income projects such as Section 202 projects for the elderly and handicapped where the market demand for housing suggests that higher rents and profits could be obtained should the mortgages be paid off immediately. This would result in the loss of already limited housing resources for the low income elderly or handicapped. S.2507 should include a provision to prevent prepayments that would result in the displacement of low and moderate income tenants within the period of the original mortgage term.

6. Section 228 should be amended to expand the Congregate Housing Services Program (CHSP) and make it a permanently authorized program with an authorization level for FY '88 of at least $30 million. CHSP has demonstrated its success in meeting service needs of the elderly and the handicapped, yet there are continuing unmet needs among many thousands of residents of Section 202 and public housing.

Thank you again for the opportunity to submit our comments. NCOA and NISH are eager to work with you to ensure adequate, affordable housing for our nation's older citizens.

David M. Madway
Director
Gideon Anders
Catherine M. Bishop
David B. Bryson
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February 9, 1987

Mr. W. Donald Canpbell
Senate Banking Subcommittee on
 Housing and Urban Affairs
535 ~~548~~ Dirksen Senate Office Building
Washington, D.C. 20510

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Dear Don:

This letter and memorandum are in response to the request of Senator Cranston for the views of the National Housing Law Project on 1987 authorizing legislation.

For ease of reference, this letter will serve as a summary of the issues discussed at greater length in the attached memo. The memo also includes suggested statutory language on several of the issues discussed.

We understand that you plan to use last year's Committee bill, S.2507, as the framework for this year's legislation. For this reason, our comments in the memo will first be directed to the provisions of S.2507. We will then provide our views on critical issues that S.2507 did not address, including both those that ought to be included in this year's legislation and those which should not. Please note that our views on the CDBG and homeless provisions of S.2507 and this year's legislation will be provided in the near future under separate cover.

The memorandum covers the following issues:

A. Provisions of S 2507

1. Section 202(a) -- Length of ACCs for Section 8 Existing Housing
2. Section 204 -- Preventing Fraud and Abuse
3. Section 221 -- Management and Preservation
4. Section 222 -- Acquisition at Foreclosure
5. Section 223 -- Tenant Participation
6. Section 224 -- Non-discrimination Against Section 8 Certificate Holders

B. Provisions That Should Be Added to the Senate Bill

1. Nonrenewal of Project-Based Section 8 Contracts
2. Expiring Appropriations
3. Mortgage Prepayments on Subsidized Projects
4. Public Housing Grievance Procedures
    a. PHA Failures to Act
    b. Exclusion for Evictions
5. Adjustments to Income in Calculating Rents
6. Voucher Annual Adjustments
7. Shelter Costs Must Include a Reasonable Utility Allowance
8. Public Housing Demolition and Disposition

C. Provisions That Should Not Be Included in the Senate Bill

1. Provisions Deleting the Existing Targeting Requirements
2. Public Housing Ceiling Rents
3. Public Housing Development Restrictions
4. Public Housing Homeownership

We hope that this information is responsive to your request and we appreciate the opportunity to present our views to you and the members of the Subcommittee. We hope to be able to provide additional information on these and related issues in the near future. If you have any questions on these matters or any others, we would be glad to attempt to answer them.

Yours truly,

Catherine M. Bishop
David B. Bryson
James R. Grow
Roberta L. Youmans

NATIONAL HOUSING LAW PROJECT

By: James R Grow

JRG/kc
Enclosures

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## MEMORANDUM

TO: W. Donald Campbell

FROM: Catherine M. Bishop, David B. Bryson, James R. Grow,
Frances E. Werner, Roberta Youmans
National Housing Law Project

RE: 1987 Authorizing Legislation

DATE: February 9, 1987

---

Pursuant to Senator Cranston's request, the following memorandum summarizes the views of the National Housing Law Project on the 1987 authorizing legislation for the federal housing programs. The memo is divided into three sections: (1) provisions of S.2507, (2) provisions that should be added to the Senate bill, and (3) provisions that should not be included in the Senate bill. At the end of the memo are attachments containing suggested statutory language.

### Provisions of S.2507

### 1. Section 202(a) -- Length of ACCs for Section 8 Existing Housing

Section 202(a) of the bill would establish a 15-year term for Annual Contributions Contracts (ACCs) for Section 8 Existing

Housing. This is a sound proposal, since the present statute does not specify the exact term of Section 8 Existing Housing ACCs. Requiring 15-year terms (presently the statutory maximum) that are commensurate with the length of the appropriation would effectively prevent HUD's practice of using five-year ACCs. This proposal would thereby make funds available for Section 8 for longer periods of time, forestalling or preventing any HUD attempt to convert the assistance to vouchers or to refuse to renew the contracts.

### 2. Section 204 -- Preventing Fraud and Abuse

While no one can disagree with the objective of preventing fraud and abuse in the federal housing programs, it is important that any system developed for dealing with the problem contains the necessary safeguards to ensure that people are treated fairly. These safeguards include specific standards detailing the conduct which constitutes "fraud and abuse," as well as appropriate prior notice and prior hearing procedures necessary to prevent wrongful terminations or reductions of assistance. The proposal embodied in Section 204 of the bill ignores both of these attributes of fundamental fairness that are essential to constitutional due process requirements.

We have been involved in numerous attempts by public housing authorities (PHAs) and landlords to terminate tenants for alleged fraud. Not surprisingly, the dispute usually relates to unreported assets or income, but many times the problem can be traced to the failure of the owner or agency to explain adequately to the tenant the reporting requirements of the program involved. The problem is often compounded by the fact that reporting requirements for changes in assets or income during the period between annual recertifications are different for many of HUD's programs. The combination of these variations and the inadequate information available to many low-income tenants creates an enormous risk of erroneous deprivation. For these reasons, it is imperative to establish a specific standard that assistance only be terminated upon a showing that the tenant knew of the requirement and knowingly violated it in order to secure a higher subsidy or lower rent. The showing should be commenced by a finding of probable cause by HUD's regional Inspector General's Office (the present requirement of the Section 8 Handbook), and the tenant should receive notice and a full administrative hearing prior to any termination or a reduction of assistance. Only in this fashion can due process requirements be satisfied.

Additionally, many tenants are faced with subsidy terminations because they neglected to report increases in income between regularly scheduled redeterminations. Low-income tenants' incomes often vary substantially due to overtime work, increasing hours, job losses, etc. No tenant should be subject to a subsidy termination for failure to report thse interim

changes. If provided with proper notice, these tenants should only be subject to a rent increase retroactive to the date the income increased.

3. Section 221 -- Management and Preservation

As you know, S.2507 contains HUD's proposals on this issue, proposals which are totally unresponsive to the needs and the resulting congressional concern about HUD's activities in this area over the past few years. See "HUD Is Not Adequately Preserving Subsidized Multifamily Housing," H. REP. NO. 477, 98th Cong., 1st Sess. (1983). In fact, this proposal would mark a significant retreat from the current inadequate system, inadequate though it is, for preserving troubled projects for continued lower-income use. It is an approach hardly consistent with meeting the increasing needs for lower-income housing. Consequently, we would suggest that the provisions of H.R.4, § 242, be substituted in place of this section. In addition, enclosed (as Attachments A through D) you will find some corrective revisions to H.R.4, § 242 (formerly H.R.1, § 221), together with a brief description of why those revisions are necessary or desirable, which we sent to the House Housing Subcommittee in response to the request of Chairman Gonzalez.

4. Section 222 -- Acquisition at Foreclosure

This provision is identical to that proposed in H.R.4, § 243, and adequately addresses the need for HUD to consider non-financial goals in its foreclosure bidding practices.

5. Section 223 -- Tenant Participation

This provision appropriately extends the benefits of tenant participation (usually the right to notice and comment on proposed major owner actions) to tenants residing in Section 202 housing projects for the low-income elderly. In addition, it wisely adds transfers of physical assets (i.e., project sales), applications for capital improvements loans, and mortgage sales to the list of actions requiring tenant notice and comment. So far, these changes are identical to those proposed by H.R.4, § 244. However, last year's Senate proposal is deficient in failing to strike the language "and the Secretary deems it appropriate" as a restriction upon the tenants' right to notice and comment. The specified major events are sufficiently critical that there is no need to permit the Secretary to determine when tenant input is "appropriate." That language should be stricken from Section 202(b)(1) of the Housing and Community Development Amendments of 1978.

6. Section 224 -- Non-discrimination Against Section 8 Certificate Holders

This provision is very similar to H.R.4, § 244(c). Its good feature is that it protects voucher holders as well as Section 8 certificate holders. Certainly there is no basis for distinguishing between the two classes of applicants entitled to these protections. However, it is deficient in that it covers only the owners of subsidized projects. In recognition of the shortage of housing available to tenants receiving portable subsidies, this proposal should be revised along the lines that HUD suggested in May of 1986 to extend the prohibition on discrimination to the owner of any HUD-insured project. See the suggested language on Attachment F.

## Provisions That Should Be Added to the Senate Bill

1. Nonrenewal of Project-Based Section 8 Contracts

Many owners of projects assisted with project-based Section 8 contracts (e.g., New Construction, Substantial Rehabilitation, or Additional Assistance) are refusing to renew those contracts. This is accomplished by exercising the "opt-out" feature that is included in many pre-1980 contracts, which permits owners to decide at the end of each five-year period whether they wish to continue with the program. Sometimes owners refuse to renew these contracts because the Section 8 contract rents have not been adjusted by HUD to keep pace with the actual returns available on the private rental market.

For this reason, legislation should require HUD to adjust Section 8 contract rents in amounts that are necessary to provide owners with true fair market rentals (equivalent to the rent available to the owner without the Section 8 contract), adjusted on an annual basis. Present legislation (Section 8(c)(2)(A) of the United States Housing Act, 42 U.S.C. § 1437f(c)(2)(A)) permits HUD to make adjustments via a "reasonable formula," but historically HUD's annual adjustment factors have lagged behind the real market, particularly in booming real estate markets. In addition, owners should be required to give HUD prior notice of their intention to opt out, and HUD should be required to review the owners' reasons to determine whether they are lawful and whether any steps can be taken to avoid the owners' withdrawal from the program. Finally, owners refusing to renew the contract should be required to sell the project at fair market value to a public or nonprofit entity that will remain in the Section 8 program.

Suggested language for this amendment can be found on Attachment G.

## 2. Expiring Appropriations

Given the legislative logjam that has persisted over the last few years, it is quite possible that this year's authorizing legislation will be a two-year bill. As such, it would cover authorizations for fiscal years 1988 and 1989.

To our knowledge, there is only one category of HUD-subsidized housing that will face the problem of expiring appropriations during the period covered by these two fiscal years. This category includes all Section 8 Loan Management contracts executed during fiscal years 1983 and 1984. Prior to FY '83, these contracts were funded with full 15-year appropriations. In FY '83, however, HUD embarked upon a new course, requesting only five-year appropriations. Therefore, the funding for Section 8 Loan Management contracts first executed during Fiscal Year 1983 will end with the expiration of contract authority paid from Fiscal Year 1987 funds, while funding for those executed during Fiscal Year 1984 will end with the expenditure of Fiscal Year 1988 authority. It is necessary to authorize budget authority for renewal of these contracts, budget authority that is in addition to that otherwise appropriated for new incremental units. Otherwise, these units will be lost to the lower-income housing inventory or funds intended to assist new families will be diverted from them to renew these contracts. During FY '83, according to HUD's budget figures, Section 8 Loan Management contracts were executed for 6,604 units. During FY '84, the figure was 5,106 units.

### 3. Mortgage Prepayments on Subsidized Projects

A mortgage prepayment terminates a subsidized project's subsidy, rent control and other low-income use restrictions. Prepayments therefore pose tremendous threats to the survival of much of the existing low-income housing stock. The prepayment problem has two dimensions, both of which require congressional action. The first concerns those projects where agency approval of the prepayment is not required. The second concerns restricting the circumstances where HUD approval may be given.

#### a. When HUD Approval Is No Longer Required

We are now approaching the time when many owners of multifamily projects subsidized under the HUD insurance programs may prepay their mortgages without any further agency approval. For most projects, this point is reached 20 years after original mortgage endorsement. For FmHA projects funded with pre-1979 loans, mortgages may presently be prepaid at any time. (In recognition of this latter problem with older Farmers Home Administration (FmHA) loans, Congress enacted a moratorium in the continuing resolution last year which will expire on July 21, 1987.)

The scope of the prepayment problem is as follows. During the period between now and 1995, use restrictions for some 200,000 privately owned HUD-subsidized units (Section 221(d)(3) BMIR and Section 236 projects) will be eligible for termination by owner prepayment of the mortgage. There are about 200,000 units of privately owned FmHA projects built prior to 1979 that are presently eligible for prepayment without agency approval. (Since, on December 21, 1979, Congress imposed 20-year prepayment restrictions upon FmHA loans provided after that date, the prepayment crisis for those newer units, numbering approximately 160,000, will not begin until 1999.) Whether a particular owner will choose to prepay the loan will depend primarily upon whether higher rents can be obtained on the private market, thus making refinancing of the HUD-insured or FmHA direct loan economically feasible.

To deal with this problem, we recommend the following federal response (for which suggested language is contained on Attachments H-1 and H-2). First, Congress should declare a temporary moratorium on prepayments of Section 221(d)(3) BMIR projects (the only projects with use restrictions expiring during FY 1988) similar to that enacted last year for FmHA projects. This moratorium period will give Congress the time to develop responsible legislative approaches for preserving jeopardized projects wherever possible. If this bill will be a two-year bill, then the moratorium period should extend to the end of

FY '89, *i.e.*, October 1, 1989. *See* Attachment H-1. Alternatively, owners proposing to prepay should be required to notify HUD a year in advance. HUD should then be required to notify qualified public and nonprofit entities of the prepayment proposal and of whatever resources are available to such entities to assist in their acquisition of the project. Owners should be required to sell the project at fair market value to a qualified entity approved by HUD so that it will continue to serve low-income families. *See* Attachment H-2.

### b. When HUD Approval Is Required

In order to stem the loss of units through premature prepayments during the period when HUD approval *is* required, *i.e.*, during the first 20 years of the loan for most projects, we also recommend that Congress amend existing statutory language specifying the standards governing HUD's approval of mortgage prepayments. The 1983 legislation (Pub. L. No. 98-181, § 433) first established standards for HUD's acceptance of prepayments where HUD approval is required. That law permits HUD to accept a mortgage prepayment if

> the Secretary has determined that such project is no longer meeting a need for rental housing for lower-income families in the area *or that the needs of lower-income families in such projects can more efficiently and effectively be met through other federal housing assistance, taking into account the remaining time the project could meet such needs*. . . .

This clause allows HUD to accept prepayments where the agency determines, for example, that vouchers provide "more efficient and effective" assistance. Such a determination does nothing to preserve the stock of units affordable to lower-income families and unnecessarily exacerbates the existing prepayment and loss-of-units problem. Attachment I deletes this language, forcing HUD's approval decision to focus upon whether the *project* could continue to serve lower-income people.

## 4. Public Housing Grievance Procedures

There are two significant problems with the existing statutory framework, as interpreted by HUD's regulations. The first is that HUD's proposed regulations for implementing the statute (51 Fed. Reg. 26,504 (July 23, 1986)) do not include as grievable issues those situations where PHAs fail to act upon tenant requests. The second problem is the statutory exclusion of evictions from the grievance procedure.

### a. PHA Failures to Act

In an effort to restrain HUD's 1981-1982 drive to emasculate public housing tenants' rights to a fair grievance process, Congress adopted the statutory provision in 1983 which requires each housing authority to establish and implement a grievance procedure. 42 U.S.C. § 1437d(k). In July 1986, HUD published proposed revisions to its grievance procedure regulations which have been in effect since 1975. 51 Fed. Reg. 26,504 (July 23, 1986). The proposed regulations have a number of unsatisfactory provisions, but one requires immediate legislative action. That provision narrowly restricts the grievable disputes to three categories, i.e., disputes about evictions (unless they are otherwise excluded); disputes about PHA-mandated transfers; and some, but not all, disputes about rents and charges. Proposed 24 C.F.R. § 966.31 (1985).

Citing references in the statute to "proposed adverse public housing agency actions," HUD's regulations would limit the grievable issues by creating an artificial distinction between actions and omissions, between affirmative actions and failures to act. Thus, HUD's proposed regulations have the absurd effect of excluding from the grievance process disputes regarding rent, if the tenant has asked for a rent reduction because of lower income, and the housing authority has failed to act; disputes about transfers, if the tenant has asked for a transfer and the housing authority has failed to act or has denied the request; and disputes about a PHA's failure to make repairs. There are many other examples of similar disputes that HUD would arbitrarily exclude from the grievance process.

Even before HUD came out with its proposed regulations, the United States Court of Appeals for the District of Columbia

Circuit had rejected a housing authority's attempt to narrowly limit grievable issues by trying to derive from the statute this same artificial distinction between actions and failures to act. Samuels v. District of Columbia, 770 F.2d 184 (D.C. Cir. 1985). Relying upon the legislative history of the 1983 Act, including the House Report, as well as the absurd results produced by such a distinction, the Court held that the PHA must open up its grievance process to all disputes between a tenant and the housing authority, even if they involve a failure of the housing authority to act. The Samuels decision has recently been cited with approval by the United States Supreme Court. Wright v. Roanoke Redevelopment and Housing Authority, 55 U.S.L.W. 4119 (Jan. 14, 1987). HUD refused to follow the Court of Appeal's analysis, asserting that the Court should not have relied upon the legislative history of the House bill when the final Act, produced by the November 1983 compromise, included language on the grievance procedure which was not exactly the same as the House bill. 51 Fed. Reg. at 26,515-516. To clear up any confusion on this issue and to achieve the purpose Congress intended in 1983, this year's housing legislation should include a provision amending Section 6(k) of the Act to ensure, as the 1975 regulations did, that all disputes with respect to the Housing Authority's actions and failures to act are grievable. Suggested language is included in Attachment J.

b. Exclusion for Evictions

In the compromise which produced the 1983 legislation, the grievance procedure requirement was amended to allow PHAs to exclude evictions from the procedure. 42 U.S.C. § 1437d(k). This exception to the grievance procedure is unwise and unjustified on policy grounds.

Although on paper it would appear that the statutes and case law in most states might give tenants facing eviction a due process hearing, there is a wide divergence between the appearance of due process on paper and the reality of the eviction process in most state courts. We have documented that divergence in comments which we submitted to HUD in response to its 1982 regulatory proposal to repeal the grievance procedure altogether. Here we would like to reemphasize that our day-to-day work makes us repeatedly aware that public housing tenants facing eviction in state courts throughout the country:

(1) Have inadequate notice of the reasons for their eviction;
(2) Have inadequate time to prepare a defense;
(3) Have inadequate opportunity to discover from the PHA the evidentiary basis of the complaint against them; and

(4) Too often face a judge who will decide the case in minutes, who will refuse to consider federal law, and in some circumstances any law, and who will provide no explanation, written or otherwise, for his decision to put the family out on the street.
(5) Are denied or face severe restrictions on their right to appeal the trial court's arbitrary or erroneous decision.

Because of these facts and because of the total absence of any credible demonstration by HUD or a PHA that a grievance procedure unfairly impairs the PHA's power to evict, and because public housing often serves as the last resource of decent and affordable housing, Congress should repeal the provision which allows PHAs to exclude evictions from their grievance procedures. Experience has shown that the grievance procedure is in fact often the best and least expensive (for both parties) forum for resolving many eviction disputes.

5. Adjustments to Income in Calculating Rents

Over the past several years, HUD has forced low-income tenants to pay an increasing share of their extremely low incomes for rent via a variety of direct and indirect tactics. First, in 1981, at HUD's insistence, Congress increased the rent-income ratio from 25 to 30 percent. Second, HUD has failed to ensure that a reasonable amount of utility consumption is included in the services to be covered by the tenants' rent, a practice which effectively results in tenants paying far in excess of 30 percent of their income for shelter costs. Finally, Congress and HUD have ignored the indisputable fact that the existing adjustments to income prescribed by the statute are not adequate.

In 1970, HUD first established the "per dependent" deduction from gross income to be $300, effective in March of 1971. That remained unchanged until 1983, when Congress established the deduction at $480. From March of 1971 to the present, inflation measured by the CPI has increased the price level by 176 percent. If the 1971 level of $300 were properly adjusted for inflation, the per-dependent deduction would now be $828.

The error here was the failure of Congress to index the original figure. In order to rectify this problem, the per-dependent deduction and other deductions in Section 3(b)(5) of the United States Housing Act should be indexed and the per-dependent deduction should be adjusted to $800 to approximate its real original level. This change would have the added benefit of assisting most those tenants with the lowest incomes, since the deduction is a flat dollar amount. This change will focus scarce housing resources on those who can least afford housing by reducing at least this aspect of their onerous rent burden to a more equitable level.

## 6. Voucher Annual Adjustments

As Congress is aware, one of the primary reasons that HUD's Voucher Program appears cheaper for the government is the lack of an annual subsidy adjustment to ensure that the payment standard increases to reflect increases in general market rents. Presently, under the Voucher Program, the subsidy can be increased no more than two times during a five-year ACC, and even then the increase is discretionary with the PHA. Without an increase in the payment standard, and a consequent subsidy increase, tenants pay the entire rent increase from their own pocket, making their rental contribution rise far above the 30-percent-of-adjusted-income standard. In contrast, under the Section 8 Program, when a landlord raises the rent to reflect inflation or market conditions, the subsidy is increased in accordance with an annual adjustment factor. Therefore, Congress should amend the voucher statute in order to ensure that the Voucher Program remains truly affordable for tenants.

Attachment K contains the suggested revision.

## 7. Shelter Costs Must Include a Reasonable Utility Allowance

In the last decade, HUD has consistently attempted to force public housing and Section 8 tenants to pay more and more of the utility costs for their apartments. In 1984, HUD published final regulations defining utility allowances in a manner that will result in a vast majority of assisted tenants paying more than a reasonable amount for utilities. 49 Fed. Reg. 31,399 (August 7, 1984), codified at 24 C.F.R. § 965.470-965.480.

Prior to the publication of these regulations, for 24 years HUD had a policy that the minimum utility allowance must be based upon actual consumption for each category and bedroom size of unit. This minimum was readily adjusted upwards to take into consideration (1) special family needs, (2) the fact that the PHA receives the benefit of lower tenant consumption in the case of tenants living in master-metered projects with individual check meters, and (3) the fact that some buildings have no individual meters for determining individual unit consumption.

In 1980, HUD adopted utility allowance regulations. These regulations set utility allowances at actual average consumption by category and size of unit for tenants who are billed directly by the utility company. For tenants with PHA-paid utilities, but whose consumption is measured by check meters, the allowances were to be set at a level sufficiently high so that 90 percent of the tenants would be covered by the allowance. As reasonable as this standard was, it was not enforced by HUD. Thus, tenants generally paid excessive amounts for utilities because allowances set during the 1970s remained unchanged, despite significant rate increases and increases in consumption due to poor

weatherization, lack of insulation and energy-inefficient appliances. This scheme resulted in tenants paying far in excess of 30 percent of their incomes for shelter, contrary to Congress' intent.

When HUD published new regulations in 1984, it abdicated any responsibility for specifying reasonable standards for setting allowances. Allowances are now left to local PHAs to develop. HUD has declared that utility allowances will be reasonable if they "approximate a reasonable consumption of utilities by an energy-conservative household of modest circumstances consistent with the requirements of a safe, sanitary and healthful living environment." 24 C.F.R. § 965.476. Many PHAs lack the personnel, experience and, in many cases, the desire to develop an adequate utility allowance. As a result, many PHAs have not developed new utility allowances as required under the new regulations, and some have even reduced their previously inadequate utility allowances, despite (and in some cases because of) recognized efforts of tenants to conserve energy.

We therefore suggest that the statute be amended to specify that rent must include a reasonable utility allowance based upon actual consumption. Suggested language is included in Attachment L.

This language would also cure the additional related problem of PHAs imposing extra charges in addition to rent for the use of

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JACK PAULSON
President

Don Campbell

February 25, 1987

Senator Alan Cranston
U. S. Senate
Chairman, Housing Subcommittee
SD-534 Dirkson Senate Office Building
Washington, DC 20510

Dear Senator Cranston:

The California Association of REALTORS® respectfully submits the attached testimony, in conjunction with that submitted by the National Association of REALTORS®, to the Senate Subcommittee on Housing and Community Development of the Committee on Banking, Finance and Urban Affairs. We request that this testimony on current budget proposals for the federal housing credit programs, as well as related provisions under consideration by the Subcommittee be made a part of the hearing record of February 19, 1987.

Thank you very much for the opportunity to express our concerns on these important issues. Should you require any further information, please do not hesitate to contact Joel Singer at (213) 739-8269.

Sincerely,

Jack Paulson
President,
California Association of REALTORS®

JP:hgb

REALTOR® — is a registered mark which identifies a professional in real estate who subscribes to a strict Code of Ethics as a member of the NATIONAL ASSOCIATION OF REALTORS®

# Written Testimony
# to the Subcommittee on Housing and Community Development of the Committee on Banking, Finance and Urban Affairs

submitted by Jack Paulson, President
California Association of REALTORS®

## I. Introduction

As President of the California Association of REALTORS® -- a statewide trade association representing 115,000 real estate licensees in the state of California -- I am grateful for the opportunity to present our perspectives on the impact of the Administration's fiscal year 1988 budget proposals for the federal housing credit programs, as well as on related provisions under consideration by the Subcommittee. This testimony is submitted in conjunction with and in support of that submitted by the National Association of REALTORS®. The business activities of our membership involve the brokerage of real property as well as assisting buyers in the proces of locating financing sources. It is this business focus that motivates C.A.R.'s active interest in proposed changes to the FHA and other vitally important housing credit programs.

## II. Administration's FY 1988 Budget Proposals

### A. FHA Provisions

As the Subcommittee is well aware, 1986 proved to be one of the most turbulent years the FHA has experienced in its 52 year history. Loan activity was at record levels due to declining interest rates and more stringent underwriting guidelines imposed by conventional lenders. Simultaneously, the agency found itself under repeated attack from forces seeking to curb its involvement in the mortgage market. From repeated lapses of credit and operating authority, to internally imposed restrictive operational changes contained in mortgagee letters, to hostile congressional proposals, this crucially important housing program has been beseiged by attempts to reduce its viability.

C.A.R. is deeply concerned over these recent attempts, given the critical role the FHA plays in California's housing market. As private lenders and secondary market investors have substantially tightened underwriting guidelines over the past year and a half, the FHA and VA programs have moved in, providing thousands of first-time and moderate-income homebuyers with the only viable source of affordable mortgage credit. According to C.A.R. data, the FHA, in conjunction with the VA, increased its share of newly-originated mortgages in California from 16 percent in 1984 to 24 percent in 1986, despite the presence of statutory loan limits that restrict the usage of the FHA/VA programs in the state's high priced housing market (in 1986, the California median home price of $131,530 exceeded the nationwide median by nearly 65 percent).

The vital importance of the FHA program becomes even more salient when presented in tandem with the financial profile of the state's FHA homebuyers in 1986. The median income of FHA homebuyers was nearly $17,000 less than for buyers using conventional financing. In addition, these moderate-income homebuyers were able to secure the dream of homeownership by taking advantage of lower contract interest rates, lower downpayments and substantially higher loan-to-value ratios. Finally, and perhaps most importantly, fully 62 percent of all newly-originated FHA mortgages were for first-time buyers, compared to only 34 percent for all newly-originated conventional mortgages.

**Newly-Originated Conventional vs. FHA/VA Mortgages: 1986**

| Characteristic | Conventional | FHA |
|---|---|---|
| Median Interest Rate | 10.25% | 9.5% |
| Median Loan Amount | $118,020 | $78,000 |
| Median Sales Price | $149,997 | $83,250 |
| Median Downpayment | $30,800 | $5,000 |
| Median Loan-to-Value Ratio | 79.9% | 94.4% |
| Proportion of First-Time Buyers | 34.5% | 62.3% |
| Median Annual Household Income | $52,900 | $36,000 |

Clearly, the homeownership dreams of thousands of California homebuyers would have been unmet without the existence of a full and viable FHA. These statistics illustrate the vital role that the FHA mortgage insurance program serves in assisting California's first-time and moderate-income homebuyers. The market segment served by FHA is composed of those whom are most affected by the state's acute affordability problem. In view of the fundamental importance of this program to the state, C.A.R. is extremely concerned about the proposals contained in the Administration's FY 1988 budget that would severely constrain the FHA's presence in the home mortgage market.

## FHA Credit and Operating Authority

As we are only too aware, the FHA was forced to shut down six times in fiscal year 1986 while the program's importance and high public visibility was used as "bait" to secure passage of unrelated legislation. These repeated expirations of FHA's credit and operating authorities proved disastrous for a mortgage market already burdened by unprecedented loan volume, and forced needless delays and costs on hundreds of thousands of homebuyers nationwide. For 1987, FHA likely will not be subject to such treatment; however, C.A.R. is extremely concerned about the prospects for further shutdowns in fiscal year 1988.

The Administration's FY 1988 budget proposes to reduce FHA's credit ceiling from $100 billion to $70 billion in 1988. This proposal falls far short of HUD's projections for insuring authority needed to meet forecasted demand. This sharp reduction in the credit ceiling would once again subject the FHA to the specter of repeated shutdowns. Moreover, FHA is also facing expiration of its operating authority at the end of the current fiscal year.

Given the myriad of costly market disruptions that occur when the FHA has to shut down, and in light of the projected strong demand for the agency's services, C.A.R. strongly recommends that the agency be given a long-term or permanent extension of operating authority and sufficient credit authority to operate without interruption. For FY 1988, we recommend that the agency's credit authority be set at $100 billion. Together, these measures would reduce the agency's exposure to those who wish to use it as a political "football" and eliminate the potential for future shutdowns in any interest rate environment.

## MIP Increase

The California Association of REALTORS® has adamantly opposed the recurrent efforts of the Administration to increase the mortgage insurance premium (MIP) on FHA single-family home mortgages from 3.8 percent to 5 percent. Not only is such a fee increase entirely unnecessary to bolster the actuarial soundness of the FHA insurance fund, it will have only minimal effectiveness in reducing the budget deficit. In addition, this fee increase will exact a tax on California's first-time and moderate-income homebuyers of approximately $144 million in FY 1988 alone (based on an estimated 150,000 FHA loans in California in 1986, and a median MIP increase of $960).

The Association commends the Senate's past opposition to this unwarranted proposal, and supports legislation that would cap the FHA mortgage insurance premium at 3.8 percent. In fact, C.A.R. believes that the current level of FHA reserves could actually warrant a reduction in FHA insurance premiums.

In a related issue, the Administration has also proposed to sharply increase the VA home loan guaranty from 1 percent to 2.5 percent. In testimony submitted to the Senate Committee on Veteran Affairs, C.A.R. also commented on the severe impact of the proposed increase on veteran homebuyers, and again, C.A.R. has recommended a 1 percent cap on this vital program's fees.

## Administration/HUD Proposed Legislative Changes in FY 1988 Budget

In addition to the hike in the MIP and reduced credit authority, the Administration has made several other proposals designed to drastically reduce the scope and effectiveness of the FHA program. The FY 1988 budget contains proposals for legislation that would:

- Require at least a 5 percent minimum downpayment for families earning $40,000 per year, and implement a sliding scale of increased downpayments for higher incomes.
- Preclude the financing of closing costs in the FHA mortgage amount.
- Eliminate FHA insurance for investor and second homes.
- Eliminate the one percent cap in lender origination fees.
- Use conventional underwriting criteria to qualify FHA applicants.

### Minimum Downpayment Requirements

C.A.R. believes that the proposal for increasing the downpayment requirement for families earning $40,000 or more is entirely unwarranted. Although the Administration claims that this proposal is necessary to eliminate unfair competition between FHA and private mortgage insurers, the comparitive profile of FHA versus conventional homebuyers presented earlier clearly illustrates that the market segment served by FHA is fundamentally different from that served by private mortgage insurers. These programs are not substitutes, particularly in high cost markets such as California where affordability problems are acute even for prospective homebuyers earning in excess of $40,000. For many California homebuyers, the FHA is the only source of low-downpayment mortgage credit. It must also be emphasized that these higher income borrowers help to mitigate the risk posed by insuring lower income borrowers, thus keeping the FHA insurance fund operating on a self-supporting, actuarially sound basis.

### Closing Costs

The proposal to eliminate the financing of closing costs over the life of the loan would increase the cash requirements for the FHA homebuyer dramatically. Although the proposal does not go so far as to prohibit the financing of the mortgage insurance premium as in FY 1987 proposals, it would nevertheless increase the cash required to close an FHA loan for the typical California homebuyer by more than $2,000. By increasing the cash required to close, the proposal literally closes the door on homeownership for thousands of California's moderate-income and first-time homebuyers for whom the FHA's low downpayment financing program is crucial.

## Elimination of Investor and Second Homes

The Administration's budget proposes to introduce legislation that would limit FHA insurance to principal residences only. C.A.R. believes that the exclusion of investor and second homes from this program is a drastic and unnecessary response to the fraud and abuse problems experienced in the FHA single-family program. Although the highest incidence of recent claims losses has been in the investor program, the agency has already implemented many of the recommendations proposed by the HUD Task Force assigned to study the problem. C.A.R. believes that the problems of fraud and abuse in FHA single-family program can sharply be reduced by recently implemented enforcement procedures, and that drastic reductions in the scope of the FHA program are entirely unwarranted.

Moreover, the vital role played by FHA in the single-family rental market should not be overlooked. Approximately one-third of all renters choose to live in single-family homes, and a significant number of these rental homes remain viable investment properties as a result of the availability of FHA insurance. Eliminating FHA investor loans would choke off the supply of this type of housing, forcing many renters, especially those with larger families, to endure the cramped conditions of multifamily housing.

## Lender Origination Fees

The Administration's proposal to lift the current one percent cap on lender origination fees and post-endorsement fees would result in further cost increases costs to the FHA homebuyer. Under this proposal, buyers could face lender origination fees of up to 1.5 percent or more, depending on local market conditions, adding yet another layer of increased costs for FHA homebuyers and further inhibiting the program's ability to serve its intended market.

## Changes in Underwriting Criteria

The Administration's proposal to conform FHA underwriting criteria to conventional market standards is firmly opposed by C.A.R. The current criteria used in underwriting FHA loans is a 38% housing expense-to-income ratio with a long-term debt-to-income ratio of 53 percent. Conventional lenders currently use a drastically lower 25/33 standard for low-downpayment loans. Conceived with the intention of further rendering the FHA more competitive with the private sector, this proposal is by far the most counterproductive advanced yet. It alters the fundamental tenet of the FHA program, which is to provide affordable, low-downpayment mortgage financing to first-time and moderate-income homebuyers who cannot qualify in the conventional market.

This proposal would preclude a substantial number of potential homebuyers from ever achieving the homeownership dream, and would be particularly disastrous in California's high-priced housing market. As illustrated earlier, California FHA borrowers earn substantially less income than those in the conventional market, and purchase homes in a high-priced market that forces them to assume larger amounts of debt than the rest of the nation's FHA buyers. This pushes them to the limit of the current FHA underwriting standards. C.A.R. urges that this proposal be vigorously opposed by Congress and that no changes be made to FHA underwriting criteria that are contrary to the expressed purpose of the organization.

**Summary of Budget Proposals for FHA**

It has been estimated that the combined effect of these proposals would increase the cash requirements to close an FHA loan by $5,000. In California, high housing costs would boost the cash demands on homebuyers even higher. In conjunction with the proposed imposition of conventional debt-to-income underwriting ratios, these program changes would render the FHA entirely unable to serve precisely those individuals for whom the program was developed--first-time and moderate-income buyers. Although the Administration claims that FHA unfairly competes with private mortgage insurers, these proposals would prevent FHA from serving its intended market and would actually force the agency to compete for the same borrowers currently served by PMI--buyers with ample cash and higher incomes.

Clearly, the FY 1988 budget proposals for FHA are based on a desire to sharply scale down the scope and effectiveness of this vital program, and not on sound economic or financial analysis. If these proposals are enacted in total, it would result in the de facto privatization of FHA, a goal long sought by this Administration. C.A.R. commends the Senate for its past rejection of these restrictive and unwise proposals, and urges the continued resistance to any efforts designed to scale down or eliminate this vitally important program which has been the foundation of federal policies that have helped millions of Americans achieve the dream of homeownership.

**B. Proposals for Federally-Sponsored Secondary Mortgage Market**

**FNMA/FHLMC Loan Limits**

C.A.R. opposes the Administration's proposal to limit the sizes of mortgages available for purchase by FNMA and FHLMC to the lesser of $15,000 or the 75th percentile of all home sales in the specific market. This proposal would increase housing costs as well as disrupt the secondary market. FNMA has estimated that the average limit under the proposal would drop by 22 percent to $119,600, with the reduction in certain markets exceeding 40 percent. These proposed changes come at a time when the public secondary mortgage market has taken on increasing importance. Experts contend that private mortgage conduits would be unlikely to fill gaps in economically distressed areas as well as the low-density areas that FNMA and FHLMC would be restricted from serving. Moreover, these experts say that the creation of different maximum mortgage amounts for each market would disrupt the unity and efficiency of the national mortgage market.

Nowhere would the impact be as adverse as in California, where home prices exceed the U.S. median by 60 percent. As described earlier, the prices in the California housing market deviate widely from the rest of the country. C.A.R. predicts tht this trend will continue with home prices continuing to be significantly higher than the rest of the country well into the year 2000. Not only would California homebuyers be severely restricted by the mortgage ceiling but would suffer from the differential between its mortgage markets and other states' mortgage markets.

## GNMA Guarantee Authority/Fee Increase

The Administration's proposal to reduce the guaranty level from FY87's $150 billion ceiling to $100 billion in FY88 will ensure that GNMA's MBS guarantee program will be subjected to shutdown throughout FY87-88 because the ceiling is set too low for GNMA to meet demand. C.A.R. asks that the Subcommittee reject the Administration's proposed reduced guarantee level for GNMA.

The Administration also proposes to raise GNMA's share of the 50 basis point fee from 6 to 10 basis points. The higher fee is purportedly necessary to boost GNMA's reserve fund, but by most estimates GNMA's reserves are more than adequate--in 17 years the agency has suffered losses of only $10.6 million, and currently maintains reserves in excess of $1.35 billion. This unnecessary increase will actually only serve to further restrict the availability and affordability of both FHA and VA loans. It has been estimated that this fee hike will result in an increase of $189 on an average FHA loan of $65,000 - $70,000 dollars.

In addition to forcing increased costs on first-time, moderate-income and veteran homebuyers, the fee increase will also squeeze profit margins for lenders, forcing some to reduce FHA/VA lending activity or withdraw from the government-backed loan market altogether. The Mortgage Bankers Association notes that not all of the cost will be passed along to FHA/VA homebuyers because of competition, and the larger the proportion that the lender must assume, the greater the incentive for the lender not to write FHA/VA loans. On the other hand, if the majority of the cost is passed on to homebuyers, the GNMA fee increase would add another $35-40 million to the housing taxes imposed on FHA and VA homebuyers by the Administration's FY 1988 budget proposals.

Again, C.A.R. opposes this attempt to raise revenues through taxes on FHA/VA homebuyers, and we recommend that Congress roll back the proposed GNMA fee increase. Furthermore, the Association believes that any future proposed increases be subject to legislative approval. It is imperative that these policy changes be open to public scrutiny and comments.

such necessary items as stoves and refrigerators. Congress has always intended that a tenant's rent cover the tenant's basic shelter needs, including the dwelling, a reasonable amount of utilities, and all necessary appurtenances, equipment and services. See, e.g., the definition of "low-income housing" in Section 3(b)(1) of the United States Housing Act. The language suggested in Attachment L would clarify Congress' intention that these practices are illegal.

### 8. Public Housing Demolition and Disposition

The public housing statute currently authorizes the demolition of public housing if it is obsolete, making it unusable for housing purposes, or there is no feasible plan to rehabilitate the project. This "or" must be changed to "and." Without this change, the demolition of a project could be justified because it is deemed obsolete, despite the fact that it could be rehabilitated. In addition, it is essential that legislation require one-for-one replacement of any unit approved for demolition or disposition. This requirement will minimize demolition and disposition by forcing serious and realistic consideration of any such proposal. Replacement units should include only project-based units with rent subsidies, so that tenants pay only 30 percent of adjusted family income. Section 8 certificates or vouchers should not be counted as replacement housing.

## Provisions That Should Not Be Included in the Senate Bill

### 1. Provisions Deleting the Existing Targeting Requirements

In 1981, in pursuit of the principle that scarce federal housing resources should be focused on those most in need, Congress adopted a requirement that a specified percentage of units be reserved for very low-income families, i.e., those below 50 percent of area median income. For units placed in service prior to October 1, 1981, at least 90 percent of such units were to be used for very low-income families. For units placed in service after that date, the figure was 95 percent. In 1983, Congress reduced the figure for "old" units to 75 percent. The House bill, H.R.4, would reverse the policy and guarantee that people with incomes over 50 percent of median get 25 percent of all the units.

Given the substantial reduction in incremental units, there is absolutely no justification for reducing the number of units available to the neediest, the very low-income families. In fact, if anything, Section 16 of the United States Housing Act should be amended to implement the existing limitations on a project-by-project basis and prevent irrational income discrimination against the neediest families on the waiting list. Maintaining and strengthening the targeting provisions of Section

16 would not exclude working families from subsidized housing, would not limit the provision of housing to welfare recipients, and would not even restrict housing to people with incomes below the poverty line. Suggested language is included on Attachment M.

## 2. Public Housing Ceiling Rents

A few housing authorities have in the past advocated legislative amendments authorizing PHAs to set ceiling rents for their units. Ceiling rents were formerly authorized by the statute, but Congress repealed them in recognition of the principle that higher income tenants should not pay a lesser percentage of their incomes for rent than the poorest tenants for whom such payments are even more burdensome.

Ceiling rents benefit only the highest-income tenants. There is no justification for charging a tenant with an annual income of $5,000 30 percent of adjusted income for rent, if high-income tenants pay a much lower percentage. It is the poor tenants who do not have enough left over after paying 30 percent of their income for rent, not the higher-income tenants who have many more after-rent dollars to spend on the other necessities of life. In some cases, the lack of ceiling rents may force tenants from public housing because rents set at 30 percent of their incomes will not be as attractive as those on the private market. However, those tenants are middle-income tenants who can afford

units on the private market and upon whom Congress should not be conferring scarce federal subsidies. Should they choose to move out when increases in their incomes cause their rents to increase to market levels, their units will go to very-low-income tenants most in need of subsidized housing. As previously stated with respect to Section 16, these very-low-income tenants can represent a variety of income levels and sources, both above and below the poverty line.

## 3. Public Housing Development Restrictions

Some have advocated legislative proposals to limit the financing of new public housing units to PHAs which can certify that a certain percentage of their existing units are physically maintained at levels equivalent to the Section 8 housing quality standards. While few will dispute the propositions that new public housing units should be developed and existing ones should be well maintained, this kind of proposal is not a wise way to accomplish that objective. Some PHAs capable of developing, managing and maintaining new and existing units may still not be able to meet the established criteria because of the presence of some older, seriously deteriorated units and the lack of adequate modernization funds. Proper maintenance must be encouraged through more funds for modernization, not through the denial of desperately needed new housing units.

4. Public Housing Homeownership

Because of the tremendous unmet need for affordable rental housing for very low-income families, any homeownership program that utilizes existing public housing units is a bad idea. This is especially true in view of the inevitable reduction in the low-income rental housing stock due to subsidized project prepayments, owner failures to renew Section 8 contracts, and expiring appropriations. Public housing represents the only stock of low-income rental housing that is not threatened with extinction and that, as currently structured, most likely will remain affordable to low-income families into the future. This stock should not be diminished by transferring units to a homeownership program.

JRG:kc

## III. Other Issues

C.A.R. would like to take this opportunity to address pressing issues that are pertinent to the efficient and effective operation of these housing credit and secondary mortgage market agencies.

### A. Restrictions on Assumability of FHA Mortgages

The first and perhaps the most serious threat to the long-term viability of the FHA program, was a fundamental change in the FHA mortgage instrument that has elimiated the full assumability of FHA loans. Specifically, effective December 1, 1986, HUD now requires all homebuyers assuming an FHA loan within two years of its endorsement by FHA, or within two years of a prior assumption, to undergo a full credit check and meet the same underwriting criteria as new borrowers. This provision has resulted in an effective due-on-sale clause on FHA mortgages, eliminating what has been one of the most important features of the FHA mortgage for more than 50 years. The full assumability of FHA loans facilitates homeownership during periods of high interest rates, and often represents the only viable source of financing for thousands of homebuyers. In addition, full assumability may actually serve to reduce default risks to the FHA insurance fund by facilitating the sale of home by homeowners facing economic hardships.

Thus, the new restriction on assumability will likely have the perverse effects of increasing default risks to the FHA insurance fund, while at the same time knocking thousands of potential homebuyers out of the market. Many first-time and moderate-income homebuyers will have difficulties paying the $500 credit check fee allowed under the new guidelines. This problem will be particularly severe in California, where downpayment and closing cost requirements are already burdensome. Moreover, because current guidelines impose no time limits for the approval of potential assumptors, the restrictions on assumptions will force costly delays on homeowners who seek relief from economic hardships by allowing their FHA loans to be assumed.

C.A.R. strongly supports N.A.R.'s proposal to legislatively roll back this policy change. Moreover C.A.R. urges that any policy changes of this magnitude be subject to legislative approval.

### B. Increase in FHA Loan Limits

As was detailed earlier, California FHA homebuyers are severely restricted by the current high-cost area loan limit of $90,000. C.A.R. notes that while the base limit and high cost calculation have not been altered since 1979, home prices in the state have appreciated by nearly 60 percent since that time. Until this limit is increased, participants in the program will find themselves with a highly limited market from which to choose. The loan limit not only limits the number of homes available for purchase with an FHA Loan, but also causes severe geographical distortions due to the substantial variation in home prices in various regions. The affordability problems are greatest in coastal urban centers, and yet the FHA program is almost entirely unable to assist first-time and moderate income buyers in these markets. Median existing housing prices in the San Francisco Bay Area were $163,255. Los Angeles registered a median price of $131,584, San Diego recorded $118,273, and Orange County recorded $152,857. Clearly FHA buyers in California are priced out of the market.

## C. Extension of the Secondary Mortgage Market Enhancement Act

C.A.R. also supports extension of Title II of the Secondary Mortgage Market Enhancement Act, which grants FNMA and FHLMC authority to purchase second mortgages. Due to sunset September 30, 1987, this provides these agencies with flexibility to respond to market changes. In times of rapidly rising interest rates, second mortgages provide buyers with an important source of financing homeownership. In 1982 48 percent of all financing arrangements in California involved some form of junior lien. Although in 1986 interest rates were at low levels, 8 percent of all financing arrangements in 1986 involved this type of transaction.

Thus, C.A.R. calls for long-term extension of this authority so that these agencies can retain their ability to respond to homebuyers' needs in an adverse interest rate environment.

## D. Increase in FHA ARM Volume Cap

The bill proposes to increase by twenty percent the ARM allocation, raising this limit to 40 percent. Although language from the Committee report specifically states that this allotment is not intended to limit the volume of fixed-rate loans that FHA insures, C.A.R. is concerned that if there are not proportionate increases in FHA credit authority and if it is not definitely established that these units are available for FRMs, then this provision would reduce the number of FRMs the agency can insure.

## E. National Housing Policy

C.A.R. is highly alarmed over these repeated attempts to reduce and render impotent these vital housing assistance and secondary mortgage market agencies. In recognition of their vital importance to the state and the nation as a whole, C.A.R., in conjunction with N.A.R., MBA, and NAHB, appeals to Congress to develop a formal National Housing Policy in order to provide a reasoned framework which will address this nation's housing needs in a coherent, cogent and continuous manner. The policy constitutes a long overdue crystalization of the government's commitment to housing. By enacting such a policy will Congress be acknowledging the need for these agencies to serve the moderate-income and first-time buyers whose housing needs are largely ignored by the private sector. And only by enacting such a policy will Congress be acknowledging that the vital role of the federal government in housing should not be administered in the piecemeal, disjointed and seemingly contradictory manner that it has been.

## V. Conclusion

C.A.R. wishes to thank the Subcommittee for the opportunity to present its views on these issues of vital importance to homebuyers. To reiterate, C.A.R. strongly opposes any proposal that reduces the efficacy of the housing credit and secondary mortgage market agencies in ensuring that California has a reliable source of affordable mortgage credit. Proposals that serve to reduce the number of eligible families, impose further financial burdens under the guise of fiscal responsibility and conform the agencies operating procedures to that practiced by the private sector are means to privatize these agencies and are not based on substantial economic reasoning given the actuarial soundness of these agencies.

C.A.R. commends the Senate's opposition to such measures and asks that the Senate do all in its power to enact measures which reasonably increase the reliability and scope of these agencies. Measures such as long-term extension of operating credit authority, capping the mortgage insurance premium and implementing procedures to eliminate fraud and abuse without penalizing honest families are along these lines. Measures such as the user fee increases which are proposed under the pseudonym of "revenue enhancers" but actually amount to a tax on moderate-income and first-time buyers that only minimally serve to reduce the federal deficit while further burdening these families are those in direct opposition to this goal.

The California Association of REALTORS® appreciates this opportunity to submit testimony on the proposals to address the nation's housing needs. We urge that the issues raised in this letter be adequately addressed in the final piece of legislation issued by the Senate.

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STATEMENT BY
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HOUSE SUB-COMMITTEE ON HOUSING AND COMMUNTIY DEVELOPMENT
MARCH 24, 1986

GOOD MORNING MEMBERS OF THE COMMITTEE.

MY NAME IS MILDRED C. HAILEY AND I AM THE EXECUTIVE DIRECTOR OF THE BROMLEY-HEATH TENANT MANAGEMENT CORPORATION IN BOSTON, MASSACHUSETTS -- THE FIRST TENANT MANAGEMENT CORPORATION IN THE UNITED STATES. I HAVE LIVED IN BROMLEY-HEATH FOR TWENTY-FIVE YEARS.

THE TMC WAS INITIALLY FORMED AROUND A 1970 EXPERIMENTAL PROGRAM. DURING THE EARLY YEARS, TENANTS WHO HAD ORGANIZED AROUND MANAGEMENT AND OTHER ISSUES WERE TRAINED IN MANAGEMENT SKILLS AND TOOK ON THE MANAGEMENT OF A FEW SELECTED PILOT BUILDINGS. DURING THIS PERIOD TMC WAS FUNDED THROUGH A SPECIAL OFFICE OF ECONOMIC DEVELOPMENT GRANT. THIS FUNDING ALLOWED THE ESTABLISHMENT OF A SMALL STAFF COMPRISING OF PROFESSIONAL AND TENANTS.

THE EXPERIMENTAL PROGRAM WAS A SUCCESS, AND ON JANUARY 1, 1973, A NEGOTIATED CONTRACT WITH THE BOSTON HOUSING AUTHORITY TOOK EFFECT AND THE TMC TOOK OVER COMPLETE RESPONSIBILITY FOR

MANAGING ALL OF THE BROMLEY-HEATH SITE. UNDER THIS NEGOTIATED CONTRACT THE TMC IS RESPONSIBLE FOR ALL MANAGEMENT FUNCTIONS EXCEPT TO CERTIFY THE ELIGIBILITY OF NEW TENANTS. THIS ONE FUNCTION IS RESERVED TO THE HOUSING AUTHORITY AS IT IS THE ONLY FUNCTION AN AUTHORITY CAN NOT CONTRACT TO ANOTHER MANAGING AGENCY. THEREFORE, THE TMC EMPLOYS ITS OWN STAFF, CONDUCTS ITS OWN MAINTENANCE AND MODERNIZATION PROGRAMS, BUYS SUPPLIES, ENTERS INTO SERVICE CONTRACTS AS REQUIRED AND PROVIDES ALL OTHER TENANT SERVICES. ALL THESE FUNCTIONS WERE NEGOTIATED WITH THE BOSTON HOUSING AUTHORITY UNDER THE ANNUAL CONTRIBUTIONS CONTRACT OF THE HOUSING ACT OF 1937.

THE TMC IS RESPONSIBLE FOR THE MANAGEMENT OF THREE FEDERALLY ASSISTED PUBLIC HOUSING DEVELOPMENTS, TOTALLING 1,215 AS-BUILT UNITS. WE, THE TMC, MANAGE IN ACCORD WITH THE PRINCIPLE THAT MANAGEMENT MUST BE CONCERNED WITH THE WHOLE OF PEOPLES NEEDS AND RESPOND TO THEM AS PART OF CREATING AND MAINTAINING A COMMUNITY -- A COMMUNITY THAT CURRENTLY CONSISTS OF 3,000 PEOPLE.

WHEN THE TENANTS FIRST BECAME INVOLVED, THERE WERE 4,000 BROKEN WINDOWS, TONS AND TONS OF GARBAGE AND DEBRIS, LEAKY ROOFS, IN-OPERATIVE BOILER PLANTS, AND VOLUMES AND VOLUMES OF WORK ORDERS THAT COULD HAVE FILLED THE LOCAL LIBRARY. CRIME WAS SO BAD THE OUTSIDE REFERRED TO BROMLEY-HEATH AS THE "CONCRETE JUNGLE" -- SO BAD -- TENANTS COULDN'T GET BASIC DELIVERIES, SUCH AS MILK, BREAD AND DEPARTMENT STORE PURCHASES DELIVERED TO OUR COMMUNITY. UNEMPLOYMENT WAS HIGH, AND DRUGS ABOUNDED, BOTH USERS AND DEALERS. THERE WAS NO MAGIC WAND WE COULD WAVE AND NO POT OF GOLD AT THE END OF THE RAINBOW WHEN WE SIGNED OUR MANAGEMENT CONTRACT. INSTEAD, HARD DECISIONS HAD TO BE MADE, CONTINUOUS NEGOTIATIONS WITH THE BOSTON HOUSING AUTHORITY, HUD AND SOCIAL SERVICE AGENCIES AND LOTS AND LOTS OF BLOOD, SWEAT AND TEARS.

LET ME SHARE WITH YOU THE FRUITS OF OUR LABOR:

- THE MARTHA ELIOT HEALTH CENTER - A COMPREHENSIVE HEALTH FACILITY THAT PROVIDES TOTAL FAMILY CARE.
- THE INFANT DAY CARE - A PROGRAM THAT TAKES INFANTS FROM THE AGE OF ONE MONTH THROUGH THE AGE OF 2 YEARS AND NINE MONTHS.
- THE DAY CARE - A PROGRAM THAT TAKES INFANTS FROM THE AGES OF 2 YEARS, NINE MONTHS THROUGH SIX YEARS OF AGE.
- THE HEADSTART PROGRAM - PROVIDES FOR ALL CHILDREN THAT NEED PERSONAL HELP IN GROWTH DEVELOPMENT.
- APAC - A SOCIAL SERVICE AGENCY THAT PROVIDES JOB PLACEMENT, A FOOD BANK AND SENIOR CITIZEN SERVICES.
- OFICINA HISPANIA - AN EDUCATIONAL LEARNING CENTER.
- BROMLEY-HEATH COMMUNITY CENTERS - PROVIDES YOUTH DEVELOPMENT AND RECREATIONAL PROGRAMS.
- WTMC - A CURRENT CARRIER RADIO STATION THAT PROVIDES ENTERTAINMENT, PUBLIC SERVICE ANNOUNCEMENTS AND CAREER TRAINING IN BROADCASTING.

- BEAUTIFICATION PROGRAM - A YEAR ROUND PROGRAM OF COOPERATION BETWEEN MANAGEMENT RESOURCES AND TENANT INVOLVEMENT THAT FOCUSES ON THE "GREENING" OF THE DEVELOPMENTS THROUGH UTILIZING ALL SOFT SURFACES FOR VEGETABLE AND FLOWER GARDENING. IN RECENT YEARS AN ADDED FEATURE OF THE PROGRAM HAS BEEN THE "LIGHTING" OF BROMLEY-HEATH DURING THE CHRISTMAS HOLIDAYS.
- COMMUNITY PATROL - STARTED IN 1968. THE PRESENCE OF THE BROMLEY-HEATH COMMUNITY PATROL HAS BEEN ONE OF THE MAJOR FUNCTIONS THAT HELPED TURN OUR IMAGE AROUND. TECHNIQUES INCLUDE FOOT PATROLS, YOUTH ORGANIZING, BUILDING MEETINGS AND IDENTIFICATION OF VALUABLES. THE PATROL IS NOW AN IMPORTANT AND NECESSARY COMPONENT OF THE TMC MANAGEMENT PROGRAM.
- A GENERIC MAINTENANCE SYSTEM THAT HAS PROVIDED TENANTS WITH JOBS AND SUBSTANTIALLY REDUCED WORK ORDERS IN APARTMENTS.
- A COMPREHENSIVE MODERNIZATION EFFORT THAT HAS BEGUN TO ADDRESS INSTALLATION OF NEW WINDOWS, NEW BOILER PLANTS, AND THE REHABILITATION OF VACANT UNITS.
- A COMPREHENSIVE REHAB PROGRAM THAT HAS MODERNIZED ONE-THIRD OF OUR AVAILABLE UNITS.

WE HAVE USED EVERY AVAILABLE RESOURCE, BOTH FEDERAL AND STATE, TO ADDRESS THESE NEEDS. HOPEFULLY, SHARING THE EXPERIENCES OF OUR TMC, THE PROPOSED HR 4026 AND THE PROPOSED HUD TMC REGULATIONS

WILL ENABLE OTHER TENANT GROUPS TO ACHIEVE THE SAME RESULTS WITHOUT THE SAME STRUGGLE THAT WE ARE STILL EXPERIENCING BECAUSE OF DWINDLING RESOURCES AND LACK OF ENDORSEMENT OF THE TENANT MANAGEMENT CONCEPT.

IN CONCLUSION, IT IS WITH GREAT SATISFACTION THAT I HAVE HAD THE OPPORTUNITY TO STAND BEFORE YOU TO TESTIFY ON OUR TMC EXPERIENCE FOR HR 4026, THE PUBLIC HOUSING RESIDENT MANAGEMENT BILL OF 1986. IT IS A WELCOME ENCOURAGEMENT TO RESIDENT MANAGEMENT, BECAUSE SOME HOUSING AUTHORITIES AND FEDERAL OFFICIALS HAVE CHOSEN TO RESIST RESIDENT MANAGEMENT AS A VIABLE ALTERNATIVE TO TRADITIONAL PUBLIC HOUSING MANAGEMENT. LEGISLATIVE ENDORSEMENT APPEARS TO BE ESSENTIAL EVEN THOUGH THE BROMLEY-HEATH EXPERIENCE WAS ACHIEVED WITHOUT AMENDING THE U. S. HOUSING ACT OF 1937.

IN CONSIDERING LEGISLATION I IMPLORE YOU TO CONSIDER THE FOLLOWING WHICH I CONSIDER ESSENTIAL INGREDIENTS FOR THE SUCCESS OF A RESIDENT MANAGEMENT CORPORATION:

- o THE ASSURANCE OF CONTINUED FEDERAL SUPPORT AND FUNDING FOR A STRONG PUBLIC HOUSING PROGRAM THAT ADDRESSES THE NEEDS OF LOW AND MODERATE INCOME PEOPLE.
- o LANGUAGE THAT ADDRESSES THE NEED FOR A STRONG RELATIONSHIP BETWEEN THE RESIDENT MANAGEMENT CORPORATION AND THE LOCAL HOUSING AUTHORITY.
- o A BUILT-IN MECHANISM THAT ADDRESSES THE NEED FOR CAPITAL IMPROVEMENT FUNDING FOR RESIDENT MANAGED DEVELOPMENTS. WITHOUT ADEQUATE RESOURCES IT WOULD

BE DESIGNED FOR FAILURE.

NEITHER TENANTS NOR AUTHORITIES SHOULD HAVE A TMC PROGRAM FORCED UPON THEM. BOTH PARTIES MUST BE WILLING AND ACTIVE PARTICIPANTS. FUNDING FOR A TMC IS ABSOLUTELY NECESSARY, BUT MUST NOT HAMPER THE FUNDING THAT LOCAL AUTHORITIES ALSO DESPERATELY NEED TO RUN THEIR OTHER DEVELOPMENTS.

AS A CONCLUDING NOTE, I WISH TO ADD MY VOICE TO THOSE WHO FEAR THE DREADFUL CONSEQUENCES TO THE PUBLIC HOUSING PROGRAM AS A RESULT OF BUDGET BALANCING ACTIONS NOW IN PROCESS. IF THE PUBLIC HOUSING PROGRAM CAN NOT SURVIVE THE SEVERE CUTS THAT ARE THREATENED NEITHER WILL RESIDENT MANAGEMENT.

THANK YOU COMMITTEE MEMBERS FOR YOUR ATTENTION. THANK YOU BOSTON HOUSING AUTHORITY FOR YOUR FIFTEEN YEARS OF SUPPORT. AND MOST OF ALL, I WOULD LIKE TO PUBLICLY THANK BOB WOODSON AND THE NATIONAL CENTER FOR NEIGHBORHOOD ENTERPRISE FOR THEIR SUPPORT, MOTIVATION AND EXPOSURE OF THE RESIDENT/TENANT MANAGEMENT CONCEPT AND FOR THEIR PERSONAL CONCERN FOR EVERY AMERICAN HAVING A DECENT, SAFE AND AFFORDABLE HOME WHETHER IN PUBLIC HOUSING OR ANY OTHER COMMUNITY.

## Statement of
## FANNIE MAE

Fannie Mae welcomes this opportunity to submit a statement for the record to the Senate Subcommittee on Housing and Urban Affairs with regard to the subcommittee's consideration of legislation to reauthorize housing and community development programs. As suggested by Chairman Cranston, it is important for the Senate to act promptly on a housing bill this year. We encourage the Congress to do so, and to include in this year's housing bill two provisions affecting the secondary mortgage market.

First, the legislation should extend permanently the authority of Fannie Mae and Freddie Mac to purchase second mortgages. An extension is essential because of the expiration of both Fannie Mae's and Freddie Mac's statutory authority on October 1, 1987.

Second, we strongly support Chairman Cranston's suggestion that this year's bill should prohibit any "user fees," i.e., new or increased housing taxes on the activities of Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), or the Government National Mortgage Association (GNMA), which would drive up mortgage costs for home buyers.

Before presenting each of these points in greater detail, a brief overview of the support Fannie Mae provides to the housing finance system and its recently enhanced role in ensuring the adequate flow of affordable funds to home mortgages may be helpful.

Fannie Mae's Contribution to Housing Finance

The Federal National Mortgage Association--more commonly known as Fannie Mae--is a privately owned and managed tax-paying corporation, chartered by Congress to provide assistance, liquidity and stability to the home mortgage market. Founded in 1938 as a part of the Reconstruction Finance Corporation, Fannie Mae became privately owned in 1970, paying the Treasury $216 million for its interest. The Charter Act requires the company to be self-supporting.

Fannie Mae's 82 million shares of stock are actively traded on the New York and other stock exchanges. Its more than 30,000 shareholders supply the risk capital that supports the company's activities.

Fannie Mae's charter restricts us to a single business and permits the Departments of Housing and Urban Development (HUD) and Treasury to regulate us. As a tradeoff for these restrictions, the Congress conveyed agency characteristics that permit us to borrow money at slightly lower rates than other privately owned institutions.

Fannie Mae operates only in the secondary mortgage market. We purchase mortgages from financial institutions such as mortgage bankers, savings and loan associations, and commercial and savings banks to provide the money to lend people to buy homes or to build rental housing. Fannie Mae obtains the funds to purchase these mortgages largely through borrowings in the domestic and, more recently, foreign capital markets. Today, Fannie Mae holds nearly $97 billion in mortgages and has guaranteed outstanding mortgage-backed securities (MBS) of nearly $102 billion. Fannie Mae's obligations constitute a significant portion of the portfolios of many financial institutions in the United States.

Fannie Mae's service as a financial intermediary and secondary market conduit improves the efficiency of the housing market. Fannie Mae is an essential element of the housing finance system, fashioned by Congress to maintain a stable flow of funds into the mortgage sector.

As seen in this decade, the housing industry is extremely vulnerable to high interest rates. During periods of credit shortages and high interest rates, housing construction declines, building tradesmen are unemployed, many related industries such as timber and household appliances suffer, and our people are less able to buy homes.

Fannie Mae has made substantial progress in restructuring its portfolio and revamping its business so as to be less vulnerable to high interest rates. An important element of the corporation's restructuring and its recent return to financial health has been the acquisition of shorter term assets, including second lien mortgages.

## Fannie Mae's Second Mortgage Purchases

Since 1981, Fannie Mae has purchased seconds with the approval of HUD. In 1984, Congress endorsed this product and extended similar authority to the Federal Home Loan Mortgage Corporation. That statutory authorization contains a sunset of September 30, 1987.

When Fannie Mae began purchasing seconds in 1981, it created a nationwide market for these mortgages. The enhanced liquidity of second mortgages results in significantly lower interest rates. Initially, the typical spreads between second lien mortgages and first mortgages were reduced from 500-600 basis points (i.e., 5 to 6 percentage points) to 150-200 basis points (1 1/2 to 2 percentage points). These beneficial effects for consumers come from the standardization and enhanced liquidity that we bring to the market, and not because we have a predominant share of the market. In fact, Fannie Mae represents less than 2.5 percent of the second mortgage market.

Many mortgage lenders, particularly banks and thrift institutions, are now more willing to extend second lien financing knowing that these loans can be sold into the secondary market created by Fannie Mae and Freddie Mac.

Continuing lender accessibility to the secondary market for the sale of such subordinate lien loans effectively ensures second lien financing availability at all times, including during high interest rate periods. When rates are high, second lien financing often provides the only practical way for many prospective home buyers to affordably purchase a home.

Real estate agents and those people who sold their homes in 1982 could tell you just how valuable the availability of second lien financing to prospective home buyers is during high-rate periods. We were then the only company purchasing seller-originated loans. Their availability made the assumption of first lien mortgages on existing homes possible for many who would otherwise have been unable to buy adequate housing.

Today, although Fannie Mae represents less than 2.5 percent of the second mortgage market for such loans, we continue to set the standards for such loans and assure the continued ability of lenders to extend such inexpensive consumer credit.

The continued existence of a secondary market for second lien financing thus benefits borrowers and lenders alike. Reduced interest rates, enhanced competition, and greater standardization of mortgage terms, including consumer protections, all resound to the benefit of the market.

In addition, Fannie Mae's acquisition of these short-term assets is an integral part of our restructuring efforts. The purchase of short-term assets, including seconds, adjustable rate mortgages, and 15-year mortgages, lessens our vulnerability to interest rate fluctuations.

HUD Secretary Pierce recognized the importance of second lien mortgages when he initially approved our purchases in 1981, and again in 1983. He then said: "[t]he contribution of the second mortgage program to the impressive success of [Fannie Mae's] financial strategy . . . alone would be sufficient to warrant at least an extension of the approval previously granted."

We run a very prudent second lien program. The default risk on seconds is low because we impose a maximum 80 percent loan-to-value ratio, including the existing first mortgage. That practice is now standard throughout the market. The improved underwriting standards that are brought to the second lien financing market by Fannie Mae benefit both lenders and borrowers. Such standards discourage borrowers from financially overextending themselves by ensuring their capacity to reasonably repay the loans.

We strongly urge that the statutory authorization of our second lien purchase authority be made permanent. As demonstrated by the recent experiences of the Federal Housing Administration (FHA), uncertainties as to reauthorization cause market inefficiencies and disruptions. A short-term reauthorization would only continue this uncertainty, thereby adding a risk factor to the price of seconds that increases the costs to borrowers.

Fannie Mae is, moreover, a privately owned, privately managed corporation. We require no federal expenditures. No other Fannie Mae activity is subject to specific congressional reauthorization. Reasonable business planning, allocation of employees and other resources, and marketing efforts become nearly impossible in light of reauthorization delays. No one can run a company effectively when major marketing efforts are subject to sudden, and possibly unintended, disruptions--or even termination.

We strongly urge the subcommittee to delete the statutory sunset provision from our Charter Act.

## User Fees Should Be Soundly and Finally Rejected

We are pleased by the Administration's recent decision to drop its earlier proposals to impose so-called "user fees" on Fannie Mae and Freddie Mac. The Administration's federal budget package for fiscal year 1988 does not include a recommendation similar to those made for the two preceding years for new housing taxes to be imposed on those secondary market entities.

The new budget package did, however, reiterate the Administration's plans to increase the fees charged for mortgage insurance and mortgage guarantees provided by the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA). Our elation at seeing the bad idea of user fees for Fannie Mae and Freddie Mac finally die has, therefore, been tempered by a reaction to the Administration's other budget plans affecting housing credit programs and activities. Viewed in their totality as they would affect the secondary market, the proposals would play practically no role in deficit reduction, while at the same time imposing higher housing costs on precisely those Americans most in need of assistance.

In addition, the Administration proposed an increase in the fee charged for mortgage guarantees under the VA program. The proposed increase from the 1 percent fee, due to expire at the end of fiscal year 1987, to 2.5 percent is alleged to be needed to offset program costs. We urge the Congress to critically consider the justifications for such increased charges.

GNMA, FHA, and VA, as well as the privately owned secondary market entities, Fannie Mae and Freddie Mac, were all created by Congress to provide affordable housing funds to home buyers in need of assistance. They serve their purposes well, and do so at no cost to taxpayers. In fact, Fannie Mae and Freddie Mac pay taxes at the full corporate rate; and FHA and GNMA are among the few revenue-generating agencies within the federal government. Last year, approximately four million home buyers were served by these organizations. For many, homeownership was made possible only by the active participation of those entities in the marketplace.

We join together with the National Association of Realtors, the National Association of Home Builders, the Mortgage Bankers Association and others to oppose these anti-housing budget proposals. We strongly urge the Congress to enact those provisions contained in last year's housing package that would prohibit the imposition of so-called "user fees" on the secondary mortgage market entities. The user fee concept is simply a guise for new taxes on the activities of FHA, GNMA, Fannie Mae and Freddie Mac that will drive up mortgage costs for home buyers.

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We thank the subcommittee for the opportunity to present our views on the need for this year's housing legislation. We urge that such legislation specifically include a permanent reauthorization to purchase second mortgages and a resounding rejection by Congress of any new housing taxes on the secondary mortgage market.

We request that this statement be included in the record of the subcommittee's ongoing hearings.

## PERMANENT EXTENSION OF FANNIE MAE/FREDDIE MAC SECOND MORTGAGE AUTHORITY

- This amendment would provide for a permanent extension of Fannie Mae's and Freddie Mac's second mortgage authority. This statutory authority expires September 30, 1987.
- Fannie Mae has purchased seconds for 6 years. Originally authorized by HUD under the provisions of our Charter Act, Fannie Mae's authority was congressionally confirmed in 1984. Fannie Mae essentially created the secondary market for seconds.
- Second mortgages are liquid because we enhance competition in the market and this affords homeowners significantly lower interest rates on second mortgages. During the first years of purchasing seconds, the spreads between second mortgages and first mortgages were reduced from 500-600 basis points (i.e., 5-6 percentage points) to the current 150-200 basis points (1 1/2 to 2 percentage points).
- Fannie Mae provides a degree of standardization of second lien mortgages, minimizing consumer confusion and inhibiting loan abuses.
- Further, our participation has ensured the availability of second liens, enabling borrowers to avoid otherwise costly refinancing of mortgages to meet financing needs.
- Fannie Mae's presence in the market has had clear beneficial effects for the consumer. However Fannie Mae represents less than 2.5% of the second mortgage market. Fannie Mae has set a standard while holding only a small fraction of the market.
- Since this authority was granted, the salutary benefits have been clearly demonstrated. There is no continuing reason to subject this authority to the reauthorization process and every reason to extend it permanently. Continued temporary extensions only generate uncertainty.
- Fannie Mae is a government-chartered, but private corporation. No other Fannie Mae business activity is specifically subject to the Congressional reauthorization process.
- Fannie Mae's ability to acquire short-term assets, including second lien mortgages, is integral to our successful restructuring efforts, and is consistent with HUD and Administration urging to shorten the maturity of assets.